THE ECONOMY IN BRIEF

DEPARTMENT OF FINANCE MARCH 2002

OVERVIEW

- In the fourth quarter of 2001 real gross domestic product (GDP) increased 2.0%, following a 0.6% decline in the third quarter. Growth for 2001 as a whole was 1.5%.
- Consumer expenditure rose 4.2% in the fourth quarter. This and a large gain in residential investment led to a 0.8% increase in final domestic demand despite a drop of 31.3% in investment in machinery and equipment.
- Foreign demand decreased, with real exports falling 3.2%. Real imports, however, plunged 15.6%, implying that the increase in domestic demand was satisfied by current Canadian production and previously acquired inventories, rather than through foreign-produced goods and services.
- Business inventories dropped by $12.4 billion, subtracting about 4 percentage points from growth.
- Falling world energy prices again reduced export prices, offsetting the boost to the trade balance from lower real imports. The current account surplus dropped $2.8 billion to $13 billion.
- Employment rose modestly in the fourth quarter but jumped by nearly 76,000 in January. The unemployment rate, which had risen to 8.0% in December, dipped to 7.9% in January.

Real GDP rebounds

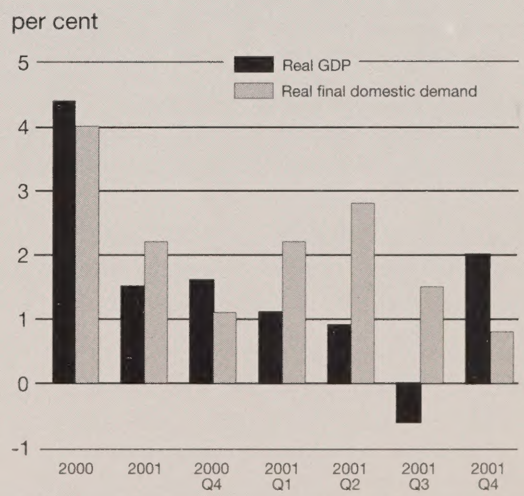
Real GDP rose in the fourth quarter after a modest decline in the third (Chart 1). Demand growth for domestic goods and services was satisfied by increased Canadian production and a rundown in inventories.

Consumers spend more

Real consumer expenditure jumped 4.2% in the fourth quarter. Spending on all major categories of goods rose, especially automotive products, partly as a result of

Note: Unless otherwise noted, data and per cent changes are quoted at annual rates. The cut-off date for data is noon, February 28, 2002.

Chart 1
Growth in real GDP and real final domestic demand



Main economic indicators
(per cent change at annual rates unless otherwise indicated)

	2000	2001	2001:Q2	2001:Q3	2001:Q4	Most recent	
Real gross domestic product	4.4	1.5	0.9	-0.6	2.0		–
Final domestic demand	4.0	2.2	2.8	1.5	0.8		–
Government expenditure							–
Goods and services	2.2	2.2	5.5	1.5	1.6		–
Gross fixed capital	7.6	6.8	2.6	9.4	19.1		–
Consumer expenditure	3.6	2.5	1.7	-0.7	4.2		–
Residential investment	2.7	4.4	2.3	4.0	20.7		–
Business fixed investment	8.1	-0.7	4.4	9.5	-23.1		–
Non-residential construction	5.3	0.9	1.1	-2.8	-7.5		–
Machinery and equipment	9.7	-1.6	6.4	17.7	-31.3		–
Business inventory investment ($ billion)	9.2	-3.3	1.5	-2.5	-12.4		–
Exports	7.6	-3.7	-5.4	-9.2	-3.2		–
Imports	8.1	-5.7	-0.8	-7.4	-15.6		–
Current account balance							
(nominal $ billion)	26.9	29.1	34.3	15.7	13.0		–
(percentage of GDP)	2.5	2.7	3.1	1.5	1.2		–
Nominal personal income	6.1	3.8	-0.1	1.4	2.9		–
Nominal personal disposable income	5.6	4.3	-0.4	2.7	5.3		–
Real personal disposable income	3.5	2.3	-4.8	2.0	5.7		–
Profits before taxes	21.8	-6.0	-14.8	-42.4	-20.5		–
Costs and prices (%, y/y)							
GDP price deflator	3.7	1.2	2.0	0.0	-0.9		–
Consumer price index	2.7	2.6	3.6	2.7	1.1	1.3	Jan-2002
CPI excluding eight most volatile items	1.3	2.0	2.3	2.4	1.8	1.8	Jan-2002
Unit labour costs	2.3	2.7	2.0	2.8	2.3		
Wage settlements (total)	2.5	3.2	2.9	3.4	3.0	2.6	Dec-2001
Labour market							
Unemployment rate (%)	6.8	7.2	7.0	7.2	7.7	7.9	Jan-2002
Employment growth	2.6	1.1	0.8	-0.2	0.5	6.2	Jan-2002
Financial markets (average)							
Exchange rate (cents US)	67.3	64.6	64.9	64.7	63.3	62.13	27-Feb-2002
Prime interest rate (%)	7.3	5.8	6.3	5.7	4.2	3.75	27-Feb-2002

Note: Real values are in chained 1997 dollars.
Sources: Statistics Canada, the Bank of Canada and Human Resources Development Canada.

incentives provided by manufacturers. Outlays for services were largely unchanged from their level in the previous quarter.

Spending was also supported by higher incomes. Personal income increased 2.9% and income taxes fell sharply, leading to a 5.3% increase in nominal personal disposable income. The personal savings rate rose to 3.7% from 3.4% in the previous quarter.

Residential investment strengthens

Residential investment, which is largely satisfied through domestic production, surged 20.7% in the fourth quarter, fuelled by reductions in interest rates throughout 2001. This sixth consecutive increase saw gains in new construction, the house resale market and renovations, as housing starts jumped at an annual rate of 45% and sales of existing homes increased even more dramatically.

Business fixed investment decreases

Business spending on plant and equipment plunged 23.1% in the fourth quarter, following a gain of 9.5% in the third. Investment in import-intensive machinery and equipment fell 31.3% after rising 17.7% in the previous quarter. However, this decrease partly reflected a return to a more normal level following the purchase of a floating drilling rig in the previous quarter. Computer investment rose 5.5%, following four consecutive quarters of decline. The sharp decline in telecommunications equipment investment continued, with a loss of 43.8% in the quarter.

Non-residential construction, which is largely satisfied by domestic production, decreased a more modest 7.5%, the second consecutive loss. This reflected decreased spending on both building and engineering projects.

Businesses accelerate inventory reduction

Businesses lowered their inventories by $12.4 billion in the fourth quarter compared with $2.5 billion in the third quarter. The faster pace of inventory reduction subtracted about 4 percentage points from growth.

Exports decline while imports plunge

As a result of slow world economic growth, foreign demand for Canadian goods and services decreased in the fourth quarter. Real exports fell 3.2%, with notable drops in services related to travel and transportation.

Real imports fell 15.6%, with the largest decline in machinery and equipment. Imports of automotive and energy products, as well as spending on travel and transportation, also fell. With the decline in imports, increased domestic demand was satisfied through increased Canadian production and a rundown of previously accumulated inventories.

Current account remains in surplus

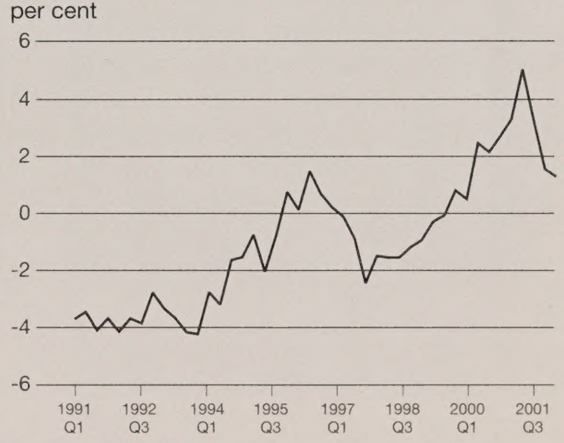
Although real imports declined more than real exports, a significant drop in export prices (particularly for energy products) lowered the nominal trade balance from its third-quarter level. This, combined with a $1.5-billion worsening in the investment income deficit, lowered the current account surplus by $2.8 billion to $13 billion, or 1.2% of GDP (Chart 2).

For 2001 as a whole the current account surplus, at $29.1 billion or 2.7% of GDP, reached a record level. This was $2.2 billion greater than in 2000 and a significant improvement from the deficits registered throughout most of the 1990s.

Inflation remains subdued

Underlying price and cost pressures remained subdued in the fourth quarter. Falling world energy prices led to a third consecutive decline in the GDP deflator. This comprehensive measure of inflation dropped 2.6% in the fourth quarter, leaving it 0.9% below its level of a year earlier. Consumer price inflation also remained subdued at 1.3% in January. Core CPI inflation, which excludes the eight most volatile items, was 1.8% in that month.

Chart 2
Current account as a percentage of nominal GDP

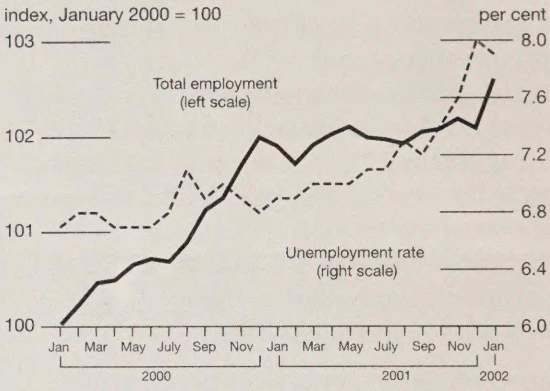


Labour productivity measured as output per employed person rose 1.4% while output per hour worked jumped 5.4%. Labour costs per unit of output were 2.3% higher than a year earlier, compared to 2.8% in the third quarter.

Corporate profits fall

Corporate profits decreased 20.5%, the third consecutive drop following 11 consecutive quarterly gains. This brought profits to 19.9% below the level of a year earlier. Declining profits were particularly notable among financial industries and in the energy sector, the latter reflecting falling world commodity prices.

Chart 3
Employment and the unemployment rate



Employment grows

After falling 0.2% in the third quarter, employment rose 0.5% in the fourth with the gain entirely in part-time jobs, as full-time employment fell (Chart 3). A further 76,000 jobs were added in January, with strong gains in both full- and part-time employment.

The unemployment rate trended modestly upward from a recent low of 6.7% in June 2000 to 7.2% in September 2001. It rose further to 8.0% in December 2001 before dipping to 7.9% in January. Slower employment growth during 2001 and rising labour force participation after September accounted for the overall upward trend.

Short-term market interest rates decline

In response to economic weakness, the US Federal Reserve lowered its target for the Federal Funds rate 11 times during 2001 and early 2002 for a total decline of 475 basis points. The most recent change was a 25-basis-point decrease on December 10, with the rate held steady in January.

The Bank of Canada reduced its key policy rate 10 times over the same period by a total of 375 basis points, including a 25-basis-point drop on January 15.

Short-term market interest rates in the United States have fallen roughly in line with the reductions in the Federal Funds target rate since the beginning of 2001. Long-term rates only began to decline in the late summer of 2001, but they have since risen back to levels near those at the end of 2000. Canadian short-term interest rates have also moved with the key policy rate. Canadian long rates are presently near their levels at the end of 2000.

The value of the Canadian dollar fell to an all-time closing low of 62.02 cents against the American dollar on January 18. However, in recent years the Canadian dollar has outperformed most other major currencies. It closed at 62.13 cents US on February 27.

The main source of data used in this publication is Statistics Canada. Subscription inquiries should be directed to the Distribution Centre at (613) 995-2855. For other inquiries about this publication, contact Mostafa Askari at (613) 992-3055.
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THE ECONOMY IN BRIEF

DEPARTMENT OF FINANCE JUNE 2002

OVERVIEW

- In the first quarter of 2002 real gross domestic product (GDP) increased a robust 6.0%, following a 2.9% gain in the fourth quarter. This was the strongest growth rate since the fourth quarter of 1999.
- Final domestic demand rose 3.5%, driven by a 35.9% increase in residential investment and a 2.5% gain in consumer expenditure. Investment in machinery and equipment rose 2.6%.
- Part of increased demand was satisfied by a 5.2% rise in imports and a $6.7-billion rundown in inventories.
- Higher foreign demand boosted real exports by 5.9%. This ended a string of four consecutive quarterly declines.
- Rising world energy prices combined with higher real exports raised the current account surplus $5.9 billion to $23.6 billion.
- The Canadian economy created 237,000 net new jobs in the first five months of the year. In May the unemployment rate was 7.7%, compared to 8.0% in December.

Strong real GDP growth

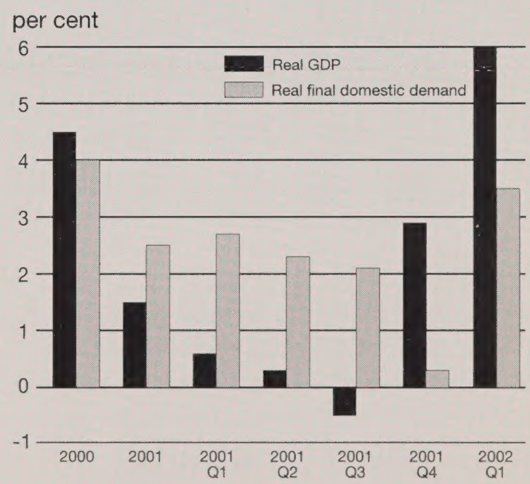
Real GDP rose strongly in the first quarter, the second consecutive increase (Chart 1). Domestic and foreign demand growth boosted Canadian production.

Consumers increase spending

Real consumer expenditure rose 2.5% in the first quarter, with increases in all major categories. The gain was strongest for durable goods, especially for household furnishings, and weakest for services. Growth in consumer spending moderated from the 4.1% rate of the previous quarter.

Note: Unless otherwise noted, data and per cent changes are quoted at annual rates. The cut-off date for data is noon, June 7, 2002.

Chart 1
Growth in real GDP and real final domestic demand



Main economic indicators
(per cent change at annual rates unless otherwise indicated)

	2000	2001	2001:Q3	2001:Q4	2002:Q1	Most recent	
Real gross domestic product	4.5	1.5	-0.5	2.9	6.0		–
Final domestic demand	4.0	2.5	2.1	0.3	3.5		–
Government expenditure							–
Goods and services	2.3	3.3	1.9	0.9	2.0		–
Gross fixed capital	3.0	11.5	14.1	18.5	2.3		–
Consumer expenditure	3.7	2.6	-0.3	4.1	2.5		–
Residential investment	3.5	4.7	8.3	23.9	35.9		–
Business fixed investment	8.2	-1.1	8.9	-25.3	-1.2		–
Non-residential construction	6.4	0.8	-3.9	-7.5	-6.9		–
Machinery and equipment	9.3	-2.2	17.3	-34.5	2.6		–
Business inventory investment ($ billion)	9.9	-3.5	-4.0	-12.7	-6.7		–
Exports	8.0	-3.8	-7.0	-0.6	5.9		–
Imports	8.2	-5.8	-7.0	-16.9	5.2		–
Current account balance							
(nominal $ billion)	27.8	30.0	17.6	17.7	23.6		–
(percentage of GDP)	2.6	2.8	1.6	1.6	2.1		–
Nominal personal income	7.1	4.0	1.8	3.2	4.2		–
Nominal personal disposable income	6.9	4.4	3.1	5.2	4.5		–
Real personal disposable income	4.7	2.5	2.3	6.4	1.8		–
Profits before taxes	19.4	-8.9	-41.0	-31.9	67.6		–
Costs and prices (%, y/y)							
GDP price deflator	3.9	1.1	0.1	-1.2	-1.6		–
Consumer price index	2.7	2.6	2.7	1.1	1.5	1.7	Apr-2002
CPI excluding eight most volatile items	1.3	2.0	2.4	1.8	2.1	2.2	Apr-2002
Unit labour costs	3.7	2.8	2.7	2.2	0.5		
Wage settlements (total)	2.5	3.2	3.4	3.0	2.9	3.2	Mar-2002
Labour market							
Unemployment rate (%)	6.8	7.2	7.2	7.7	7.8	7.7	May-2002
Employment growth	2.6	1.1	-0.2	0.5	2.8	2.4	May-2002
Financial markets (average)							
Exchange rate (cents U.S.)	67.3	64.6	64.7	63.3	62.7	65.21	6-Jun-02
Prime interest rate (%)	7.3	5.8	5.7	4.2	3.8	4.25	6-Jun-02

Note: Real values are in chained 1997 dollars.
Sources: Statistics Canada, the Bank of Canada and Human Resources Development Canada.

This largely reflected a slowdown in spending growth on motor vehicles from the 39% pace in the fourth quarter, when manufacturers offered incentives to buyers.

Consumer expenditure growth was supported by higher incomes, aided by sharp increases in employment and the average number of hours worked per week, and lower interest rates. Nominal personal disposable income rose 4.5%. The personal savings rate dipped to 4.7% from 4.8% in the fourth quarter.

Residential investment very strong

Residential investment surged 35.9% in the first quarter, fuelled by reductions in interest rates throughout 2001 and early 2002, rising incomes and milder-than-usual weather conditions. All three major categories participated in the increase, as housing starts jumped 67% to their highest quarterly level in 12 years, sales of existing homes soared and renovations rose.

Business fixed investment stabilizes

Business spending on plant and equipment declined 1.2% in the first quarter, following a drop of 25.3% in the fourth. Non-residential construction decreased 6.9%, the third consecutive decline. This reflected reduced spending on both building and engineering projects.

Investment in import-intensive machinery and equipment rose a modest 2.6% after plummeting 34.5% in the previous quarter. Investment in transportation equipment, software and telecommunications equipment rose.

Inventory liquidation slows

Businesses lowered their inventories by $6.7 billion in the first quarter compared with $12.7 billion in the fourth quarter.

The slower pace of inventory reduction added about 2 percentage points to growth (Chart 2). Given strong sales, the inventory-to-sales ratio fell to its lowest level on record.

Exports and imports rise

Foreign demand for Canadian goods and services increased in the first quarter. Real exports rose 5.9%, following four consecutive declines, with notable gains in energy products, telecommunications equipment and consumer goods.

After five successive quarterly declines, real imports rose 5.2%. Strength was particularly evident in industrial and automotive products and other consumer goods.

Current account surplus grows

Higher world energy prices and the stronger gain in real exports than imports boosted the nominal trade surplus nearly $5 billion from its fourth-quarter level. Combined with an improvement in the investment income deficit, this raised the current account surplus by $5.9 billion to $23.6 billion or 2.1% of GDP (Chart 3).

Chart 2
Contributions to real GDP growth

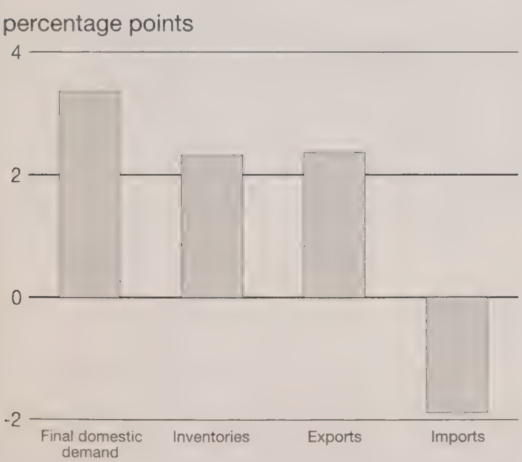
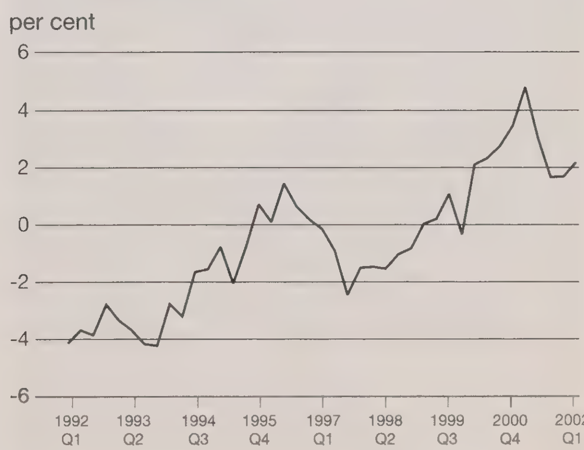


Chart 3
Current account as a percentage of nominal GDP

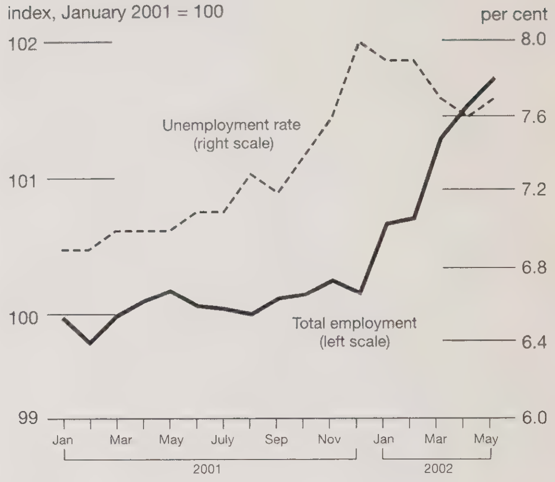


Inflation remains subdued

Underlying price and cost pressures remained subdued in the first quarter. Rising world energy prices helped to boost the GDP deflator after three consecutive declines. This comprehensive measure of inflation rose 3.3% in the first quarter, but it remained 1.6% below its level of a year earlier. Consumer price inflation also remained subdued at 1.7% in April. Core CPI inflation, which excludes the eight most volatile items, was 2.2% in that month.

Total economy labour productivity rose in the first quarter: output per employed person jumped 3.1% while output per hour worked rose 0.7%. Labour costs per unit of output were 0.5% higher than a year earlier, compared to 2.2% in the fourth quarter.

Chart 4
Employment and the unemployment rate



Corporate profits jump

Corporate profits soared 67.6% in the first quarter after three consecutive drops. This brought profits to 13.3% below the level of a year earlier. Higher profits were particularly notable among manufacturing and construction firms. The rebound in profits partly resulted from the clearance of inventories at higher prices than in the previous quarter. This was most evident for refined petroleum, wood products and primary metals.

Employment surges

Employment jumped 2.8% in the first quarter. The economy added a further 67,000 new jobs in April and May, bringing the number created so far this year to 237,000. The majority of these new jobs have been full-time and in the private sector.

The strong labour market induced 202,000 people to enter the labour force over the same period. As a result, the unemployment rate was 7.7% in May, compared to 8.0% in December (Chart 4).

Bank of Canada moves to reduce stimulus

With the strengthening Canadian economy, the Bank of Canada reduced the substantial amount of monetary stimulus in the economy. It boosted its key policy rate by 25 basis points on April 16 and again on June 4. It had reduced it 10 times during 2001 and early 2002 by a total of 375 basis points. Canadian short-term market interest rates and the key policy rate moved together during this entire period.

Canadian and U.S. long rates have been steady during the year and are presently near their levels at the end of 2000.

The value of the Canadian dollar fell to an all-time closing low of 62.02 cents against the American dollar on January 18. It has since recovered to close at 65.21 cents U.S. on June 6.

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'I'HE ECONOMY IN BRIEF

DEPARTMENT OF FINANCE SEPTEMBER 2002

OVERVIEW

- In the second quarter of 2002 real gross domestic product (GDP) increased 4.3%, following a 6.2% gain in the first quarter.
- The increase in demand was widespread across the economy. Final domestic demand rose 3.7%, driven by a 20.6% advance in business investment in machinery and equipment. Consumer spending continued to rise at a healthy pace.
- A $7.5-billion inventory buildup, following a $7.2-billion rundown in the first quarter, contributed to growth.
- A 16.8% surge in real imports satisfied part of the increase in final domestic demand and in inventory investment.
- Higher foreign demand boosted real exports by 1.8%, the second consecutive gain after four successive quarterly declines. However, with the stronger growth in imports, the current account surplus narrowed by $1.5 billion to a still impressive $19.6 billion.
- The Canadian economy created 386,000 net new jobs in the first eight months of the year. This is the largest employment gain over any eight-month period on record back to 1976. In August the unemployment rate was 7.5%, compared to its recent peak of 8.0% in December 2001.

Solid real GDP growth

Helped by strong growth in domestic demand, real GDP increased 4.3% in the second quarter of 2002, following a 6.2% gain in the first quarter (Chart 1).

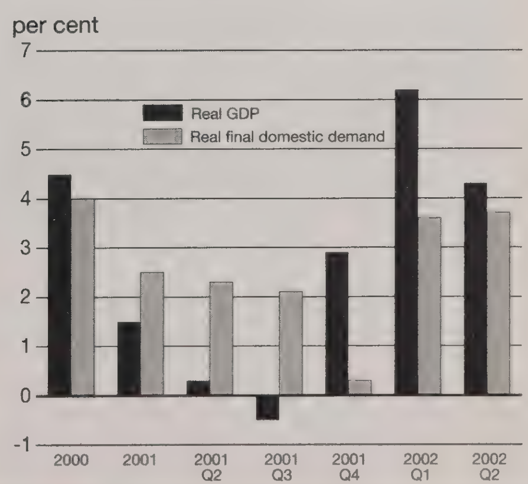
Consumers spend more

Real consumer expenditure grew 3.0% in the second quarter. The largest increase was a 5.0% jump in spending on services, with a sharp gain in outlays on recreation.

Higher incomes, aided by increases in employment, supported this growth in consumer expenditure.

Note: Unless otherwise noted, data and per cent changes are quoted at annual rates. The cut-off date for data is noon, September 6, 2002.

Chart 1
Growth in real GDP and real final domestic demand



Main economic indicators
(per cent change at annual rates unless otherwise indicated)

	2000	2001	2001:Q4	2002:Q1	2002:Q2	Most recent	
Real gross domestic product	4.5	1.5	2.9	6.2	4.3		–
Final domestic demand	4.0	2.5	0.3	3.6	3.7		–
Government expenditure							–
Goods and services	2.3	3.3	0.9	1.2	1.2		–
Gross fixed capital	3.0	11.5	18.5	4.9	13.4		–
Consumer expenditure	3.7	2.6	4.1	2.8	3.0		–
Residential investment	3.5	4.7	23.9	35.7	-2.1		–
Business fixed investment	8.2	-1.1	-25.3	-1.3	12.5		–
Non-residential construction	6.4	0.8	-7.5	-6.3	0.4		–
Machinery and equipment	9.3	-2.2	-34.5	1.9	20.6		–
Business inventory investment ($ billion)	9.9	-3.5	-12.7	-7.2	7.5		–
Exports	8.0	-3.8	-0.6	5.4	1.8		–
Imports	8.2	-5.8	-16.9	4.3	16.8		–
Current account balance							
(nominal $ billion)	27.8	30.0	17.7	21.2	19.6		–
(percentage of GDP)	2.6	2.8	1.6	1.9	1.7		–
Nominal personal income	7.1	4.0	3.2	5.7	3.5		–
Nominal personal disposable income	6.9	4.4	5.2	7.0	6.0		–
Real personal disposable income	4.7	2.5	6.4	4.2	2.5		–
Profits before taxes	19.4	-8.9	-31.9	55.8	45.4		–
Costs and prices (%, y/y)							
GDP price deflator	3.9	1.1	-1.2	-1.6	0.2		–
Consumer price index	2.7	2.6	1.1	1.5	1.3	2.1	Jul-2002
CPI excluding eight most volatile items	1.3	2.0	1.8	2.1	2.2	2.1	Jul-2002
Unit labour costs	3.7	2.8	2.2	0.9	0.8		
Wage settlements (total)	2.5	3.1	3.0	2.9	2.7	3.8	Jun-2002
Labour market							
Unemployment rate (%)	6.8	7.2	7.7	7.8	7.6	7.5	Aug-2002
Employment growth	2.6	1.1	0.5	2.8	3.7	4.7	Aug-2002
Financial markets (average)							
Exchange rate (cents U.S.)	67.34	64.58	63.28	62.72	64.35	63.62	5-Sep-02
Prime interest rate (%)	7.3	5.8	4.2	3.8	4.1	4.50	5-Sep-02

Note: Real values are in chained 1997 dollars.
Sources: Statistics Canada, the Bank of Canada and Human Resources Development Canada.

Growing employment income and increased tax refunds helped boost personal disposable income 6.0%. Real personal disposable income per capita advanced to a level nearly 14% above its most recent low in 1996. The personal savings rate, at 5.3% in the second quarter, remained unchanged from its first-quarter level and above the low of 3.7% in mid-2001.

Residential investment remains high

Residential investment declined a modest 2.1% in the second quarter after a 35.7% gain in the first that had been driven by reductions in interest rates throughout 2001 and early 2002, rising incomes and milder-than-usual weather conditions. This had boosted housing starts and home resales to high levels.

With modest interest rate increases since the spring, resales of existing homes dropped in the second quarter. Further, growth in new construction activity and spending on renovations slowed, as starts dipped.

Business fixed investment surges

Business spending on plant and equipment jumped 12.5% in the second quarter, following declines in the previous two quarters. Investment in import-intensive machinery and equipment soared 20.6%, with particularly robust gains in other transportation equipment (aircraft and locomotives) and computers and other office equipment.

Non-residential construction increased slightly following three consecutive declines. This reflected greater spending on engineering projects as building construction declined.

Businesses accumulate inventories

Businesses boosted inventories by $7.5 billion in the quarter compared to a decumulation of $7.2 billion in the first. Despite this nearly $15-billion swing in inventory investment, the largest on record, solid sales growth left the inventory-to-sales ratio at a low level by historical standards. The inventory accumulation was concentrated in the retail motor vehicle sector, mirroring the strong increase in imports of these products. Robust car sales in recent quarters had sharply reduced inventories on car dealers' lots.

Imports rise more than exports

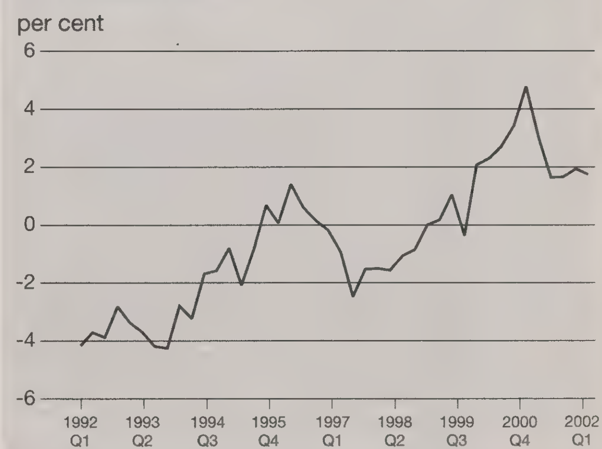
Real exports rose a modest 1.8% in the second quarter. Automotive and industrial products registered notable increases in sales while exports of machinery and equipment continued to slump in the face of weak investment growth in the United States.

Real imports surged 16.8%, with particular strength in machinery and equipment, cars and automotive parts. Increased imports of parts were required to boost Canadian production to meet increased foreign demand for motor vehicles.

Current account surplus stays high

The current account surplus narrowed by $1.5 billion but remained at a high level of $19.6 billion, or 1.7% of GDP (Chart 2). Stronger growth in real imports was partly offset by higher prices for energy exports, lower import prices for machinery and equipment and an improvement in the investment income balance. This was the 10th consecutive quarter that the surplus exceeded $17 billion, a level never reached before 2000.

Chart 2
Current account as a percentage of nominal GDP



Inflation remains moderate

Underlying price and cost pressures remained subdued in the second quarter. Consumer price inflation stood at 2.1% in July. Core CPI inflation, which excludes the eight most volatile items, registered the same rate of increase in that month.

Rising world commodity prices helped to boost export prices and thus the GDP deflator in the first two quarters of 2002. This comprehensive measure of inflation rose 7.0% in the second quarter, but stood only marginally above its level of a year earlier.

Total economy labour productivity rose modestly in the second quarter: output per employed person advanced 0.6% while output per hour worked rose 0.1%. Labour costs per unit of output were 0.8% higher than a year earlier, compared to 0.9% in the first quarter.

Corporate profits jump

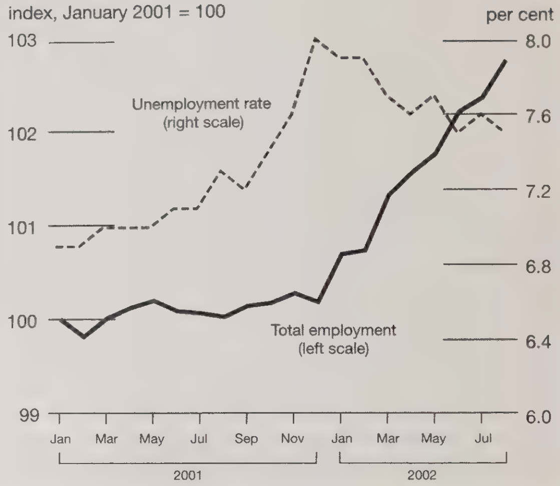
Corporate profits soared 45.4% in the second quarter, the second successive jump after three consecutive drops. Reflecting the strength of the recovery, gains were widespread, with notable advances in the oil and gas, manufacturing, retailing and wholesaling industries.

Employment surges

Employment jumped 3.7% in the second quarter. The economy added a further 82,000 new jobs in July and August, bringing the number of jobs created so far this year to 386,000. The majority of these new jobs were full-time.

The strong labour market induced 329,000 people to enter the labour force during the first eight months of the year, bringing the participation rate to its highest level since late 1990. As a result, the unemployment rate was 7.5% in August, compared to 8.0% in December (Chart 3).

Chart 3
Employment and the unemployment rate



Bank of Canada reduces stimulus

In the first half of the year the Bank of Canada reduced the substantial amount of monetary stimulus in the economy, boosting its key policy rate by 25 basis points on three occasions, most recently on July 16. It left its target rate unchanged in its September 4 announcement, citing weaker near-term prospects in the United States and major overseas economies.

Canadian and U.S. long rates have fallen since the spring. In the U.S. they have dropped to the low levels seen in the period after the terrorist attacks of September 2001.

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'I'HE ECONOMY IN BRIEF

DEPARTMENT OF FINANCE DECEMBER 2002

OVERVIEW

- In the third quarter of 2002 real gross domestic product (GDP) increased a solid 3.1%, a slowing from the more robust gains of 5.7% and 4.4% in the two previous quarters.
- Real exports rose 9.6%, their strongest advance since the first quarter of 2000. With weaker growth in imports, the current account surplus widened by $1.6 billion to $20.4 billion.
- Final domestic demand growth continued, although at about half the 4.4% pace of the previous quarter. A 15.9% advance in residential investment and a 4.8% increase in business investment in machinery and equipment drove the 2.0% domestic demand gain in the third quarter. Consumer spending growth slowed to 0.5%.
- The Canadian economy created over half a million net new jobs in the first 11 months of the year, the largest employment gain over any 11-month period on record back to 1976. In November the unemployment rate was 7.5%, compared to its recent peak of 8.0% in December 2001.

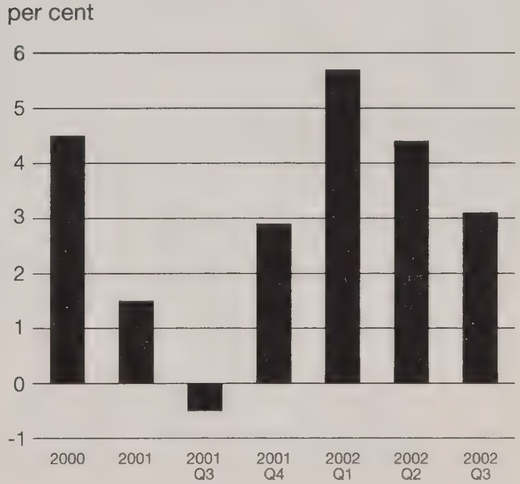
Exports drive growth

Real GDP growth has been solid since the fourth quarter of 2001 (Chart 1). Real exports contributed strongly to growth in the third quarter, rising 9.6%. Automotive products and machinery and equipment registered notable increases.

Residential investment surges

Low interest rates continued to support the housing market. Residential investment increased 15.9% in the third quarter to stand 17.5% above its level of a year earlier. Housing starts rose in the third quarter, contributing to a 31.9% increase in new

Chart 1
Growth in real GDP



Note: Unless otherwise noted, data and per cent changes are quoted at annual rates. The cut-off date for data is noon, December 6, 2002.

Main economic indicators
(per cent change at annual rates unless otherwise indicated)

	2000	2001	2002:Q1	2002:Q2	2002:Q3	Most recent	
Real gross domestic product	4.5	1.5	5.7	4.4	3.1		–
Final domestic demand	4.0	2.5	3.7	4.4	2.0		–
Government expenditure							–
Goods and services	2.3	3.3	1.7	3.3	2.8		–
Gross fixed capital	3.0	11.5	7.1	8.3	0.7		–
Consumer expenditure	3.7	2.6	2.9	4.2	0.5		–
Residential investment	3.5	4.7	35.2	-1.7	15.9		–
Business fixed investment	8.2	-1.1	-1.9	9.3	2.1		–
Non-residential construction	6.4	0.8	-7.7	-1.9	-2.3		–
Machinery and equipment	9.3	-2.2	1.8	16.7	4.8		–
Business inventory investment ($ billion)	9.9	-3.5	-7.8	7.2	6.4		–
Exports	8.0	-3.8	5.3	2.0	9.6		–
Imports	8.2	-5.8	5.2	18.9	6.3		–
Current account balance							
(nominal $ billion)	27.8	30.0	21.3	18.8	20.4		–
(percentage of GDP)	2.6	2.8	1.9	1.7	1.8		–
Nominal personal income	7.1	4.0	4.8	2.8	3.7		–
Nominal personal disposable income	6.9	4.4	7.2	4.5	4.1		–
Real personal disposable income	4.7	2.5	4.5	1.0	0.7		–
Profits before taxes	19.4	-8.9	48.7	51.1	12.6		–
Costs and prices (%, y/y)							
GDP price deflator	3.9	1.1	-1.5	0.2	2.0		–
Consumer price index	2.7	2.6	1.5	1.3	2.3	3.2	Oct-2002
CPI excluding eight most volatile items	1.3	2.0	2.1	2.2	2.4	2.5	Oct-2002
Unit labour costs	3.7	2.8	1.0	0.8	1.1		
Wage settlements (total)	2.5	3.1	2.9	2.6	2.8	3.3	Sep-2002
Labour market							
Unemployment rate (%)	6.8	7.2	7.8	7.6	7.6	7.5	Nov-2002
Employment growth	2.6	1.1	2.8	3.7	3.4	3.3	Nov-2002
Financial markets (average)							
Exchange rate (cents U.S.)	67.3	64.6	62.7	64.4	64.0	64.04	5-Dec-02
Prime interest rate (%)	7.3	5.8	3.8	4.1	4.5	4.50	5-Dec-02

Note: Real values are in chained 1997 dollars.

Sources: Statistics Canada, the Bank of Canada and Human Resources Development Canada.

construction activity over the second-quarter level. Growth in spending on renovations remained solid.

Business fixed investment rises

Business spending on plant and equipment rose 2.1% in the third quarter, following a jump of 9.3% in the second. Investment in import-intensive machinery and equipment increased 4.8% after rising 16.7% in the previous quarter. Investment in transportation equipment rose strongly while that in information and communications technology declined.

Non-residential construction decreased for the fifth consecutive quarter. This reflected reduced spending on engineering projects and building construction.

Consumer spending growth slows

Real consumer expenditure growth slowed to 0.5% in the third quarter from over 4% in the second. Increased spending on services and non-durables was largely offset by lower outlays on durables and semi-durables. In particular, consumers reduced their spending on automotive products for the second consecutive quarter. This largely reflected the continuing easing of motor vehicle purchases following the unsustainable growth generated last year by incentive programs.

Personal income increased a solid 3.7% in the quarter, as continued growth in earned income more than offset a drop in personal investment income. However, rising consumer prices limited the gain in real personal disposable income.

Nevertheless, real personal disposable income per capita was about 2% above the level of a year earlier and nearly 13% above its most recent low in 1996.

The personal savings rate, at 4.7% in the third quarter, remained unchanged from its second-quarter level and above the low of 3.7% in mid-2001.

Businesses slow the pace of inventory accumulation

Businesses boosted inventories by $6.4 billion in the quarter. As sales grew at the same pace as inventories, the inventory-to-sales ratio remained at a historically low level.

Imports rise less than exports

Real imports rose 6.3%, with particular strength in automotive parts. This reflected the need to import parts for greater Canadian production to meet increased exports of motor vehicles. Imports of consumer goods also jumped while those of services dipped.

Current account surplus remains high

The current account surplus increased by $1.6 billion to $20.4 billion, or 1.8% of GDP (Chart 2). This was the 11th consecutive quarter that the surplus exceeded $17 billion, a level never reached before 2000.

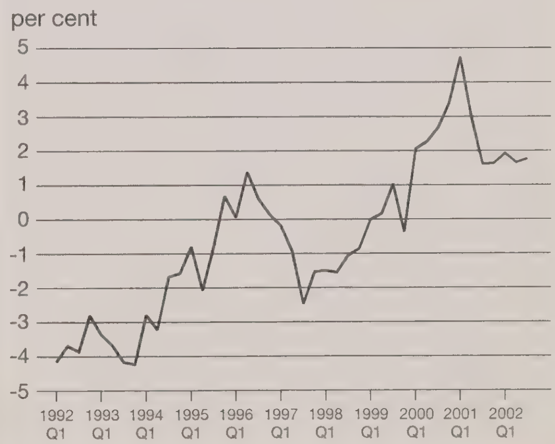
Despite a deterioration in the terms of trade (import prices rose more than export prices), stronger growth in real exports than imports boosted the surpluses in the nominal trade balance and the current account.

Inflation remains moderate

Underlying price and cost pressures remained subdued in the third quarter. The GDP deflator, a comprehensive measure of inflation, rose 1.9% and stood 2.0% above its level of a year earlier.

Consumer price inflation rose to 3.2% in October, as energy prices jumped. Core CPI inflation, which excludes the eight most volatile items, was 2.5% in October, well within the target band of 1% to 3%.

Chart 2
Current account as a percentage of nominal GDP



Total economy labour productivity showed mixed results in the third quarter: output per employed person dipped 0.4% while output per hour worked rose 4.0%, as hours worked fell. Output per hour worked was 2.7% greater than a year earlier.

Labour costs per unit of output rose 2.0% in the third quarter to stand 1.1% higher than a year earlier.

Corporate profits rise again

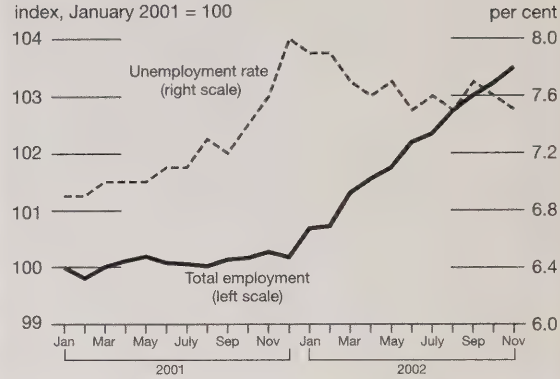
Corporate profits increased 12.6% in the third quarter. This followed jumps of about 50% in each of the previous two quarters. The gains in the quarter were notable in manufacturing, especially in the automotive sector. Financial sector profits declined. Overall profits increased to 11.1% of nominal GDP.

Employment continues to rise

Employment jumped 3.4% in the third quarter. The economy added a further 75,000 new jobs in October and November, bringing the number of jobs created so far this year to 502,000. The majority of these new jobs were full-time.

The strong labour market induced 453,000 people to enter the labour force during the first 11 months of the year, bringing the participation rate to its highest level since 1990 and 1.2 percentage points higher than a year earlier. As a result of the changes in employment and participation, the unemployment rate was 7.5% in November, compared to 8.0% in December 2001 (Chart 3).

Chart 3
Employment and the unemployment rate



Bank of Canada stands pat

On December 3 the Bank of Canada left its key policy rate unchanged, citing continuing financial and geopolitical uncertainties and global economic weakness.

On November 6 the U.S. Federal Reserve reduced interest rates by 50 basis points. Since Canadian short-term rates have been relatively steady since early September, the spread between Canadian and U.S. short rates has widened. Canadian and U.S. long rates have risen by similar amounts in the last three months.

The value of the Canadian dollar has traded in a narrow range with the U.S. dollar in recent months. It closed at 64.04 cents U.S. on December 5.

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THE ECONOMY IN BRIEF

DEPARTMENT OF FINANCE MARCH 2003

OVERVIEW

- In the fourth quarter of 2002 real gross domestic product (GDP) increased 1.6%, a slower pace than in the first three quarters of the year, reflecting weaker exports, in particular automotive exports to the United States. For 2002 as a whole, real GDP grew a solid 3.4%, more than double the pace in 2001.
- Final domestic demand registered a stronger gain in the fourth quarter than in the third. This was led by solid growth in consumer spending and a robust increase in residential investment. However, business investment in plant and equipment decreased 1.5%.
- Real exports dropped 8.0% while real imports declined 1.0%. As a result, the trade surplus fell, contributing to the current account surplus narrowing \$3.7 billion to \$13.2 billion.
- From January 2002 to February 2003 the Canadian economy created 613,000 net new jobs, the largest employment gain over any 14-month period on record back to 1976. The unemployment rate in both January and February 2003 was 7.4%, down from its recent peak of 8.0% in December 2001.

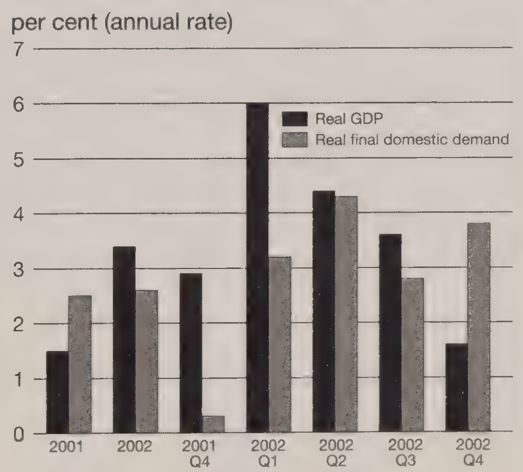
Domestic demand drives growth

Real GDP grew 1.6% in the fourth quarter of 2002, a slower pace than the 4.7% average in the first three quarters of the year. Stronger domestic demand led the gain, increasing 3.8% in the quarter (Chart 1).

Consumer spending contributes to growth

Real consumer expenditure growth increased to 4.4% in the fourth quarter compared to 1.6% in the third. Gains in household spending were widespread among the major categories. The increase was especially noticeable in durables. Motor vehicle sales rose sharply and the continued strong housing market boosted spending on furniture and appliances.

Chart 1
Growth in real GDP and real final domestic demand



Note: Unless otherwise noted, data and per cent changes are quoted at annual rates. The cut-off date for data is noon, March 7, 2003.

Main economic indicators
(per cent change at annual rates unless otherwise indicated)

	2001	2002	2002:Q2	2002:Q3	2002:Q4	Most recent	
Real gross domestic product	1.5	3.4	4.4	3.6	1.6		–
Final domestic demand	2.5	2.6	4.3	2.8	3.8		–
Government expenditure							–
Goods and services	3.3	2.0	3.6	3.0	3.5		–
Gross fixed capital	11.5	8.7	5.6	3.3	-0.8		–
Consumer expenditure	2.6	2.9	4.3	1.6	4.4		–
Residential investment	4.7	16.0	-1.8	16.3	11.3		–
Business fixed investment	-1.1	-3.9	7.6	2.4	-1.5		–
Non-residential construction	0.8	-6.4	-4.8	-1.1	-3.2		–
Machinery and equipment	-2.2	-2.4	15.8	4.6	-0.4		–
Business inventory investment ($ billion)	-3.5	4.4	7.1	7.4	9.6		–
Exports	-3.8	0.8	2.6	9.4	-8.0		–
Imports	-5.8	0.8	19.8	6.5	-1.0		–
Current account balance							
(nominal $ billion)	30.0	17.3	17.2	16.9	13.2		–
(percentage of GDP)	2.8	1.5	1.5	1.5	1.1		–
Nominal personal income	4.0	3.2	2.5	3.4	5.3		–
Nominal personal disposable income	4.4	4.5	3.6	3.3	4.2		–
Real personal disposable income	2.5	2.5	0.2	0.3	2.3		–
Profits before taxes	-8.9	6.2	51.1	10.4	11.5		–
Costs and prices (%, y/y)							
GDP price deflator	1.0	1.2	0.1	1.8	4.2		–
Consumer price index	2.6	2.2	1.3	2.3	3.8	4.5	Jan-2003
CPI excluding eight most volatile items	2.0	2.4	2.2	2.4	2.8	3.3	Jan-2003
Unit labour costs	2.8	1.2	0.9	0.9	2.0		
Wage settlements (total)	3.1	2.8	2.6	2.8	3.2	2.9	Dec-2002
Labour market							
Unemployment rate (%)	7.2	7.7	7.6	7.6	7.6	7.4	Feb-2003
Employment growth	1.1	2.2	3.6	3.5	3.2	4.3	Feb-2003
Financial markets (average)							
Exchange rate (cents U.S.)	64.6	63.7	64.4	64.0	63.7	68.00	06-Mar-03
Prime interest rate (%)	5.2	4.2	4.1	4.5	4.5	4.75	06-Mar-03

Note: Real values are in chained 1997 dollars.
Sources: Statistics Canada, the Bank of Canada and Human Resources Development Canada.

Personal income increased a solid 5.3% in the quarter, as employment and wage gains boosted earned income. Real personal disposable income increased by more than 2%, and real personal disposable income per capita rose to near its record level and stood more than 13% above its most recent low in 1996.

The personal savings rate fell from 4.2% in the third quarter to 3.7% in the fourth.

Residential investment continues to be strong

Low interest rates continued to support the housing market. Residential investment increased 11.3% in the fourth quarter to stand 14.8% above its level of a year earlier. Housing starts rose modestly in the quarter, contributing to a 12.2% increase in new construction. Growth in spending on renovations remained solid. Activity in the house resale market also registered a solid gain.

Business fixed investment falls

Business spending on plant and equipment decreased 1.5% in the fourth quarter, following a gain of 2.4% in the third. Investment in import-intensive machinery and equipment dipped 0.4% after rising in the three previous quarters. Businesses reduced spending on automobiles and continued to cut their investments in telecommunication equipment. Expenditures on industrial machinery, computers and software rose.

Non-residential construction decreased for the sixth consecutive quarter. This reflected reduced spending on engineering projects and building construction.

Businesses add to inventories

Businesses boosted inventories $9.6 billion in the fourth quarter, up from the $7.4-billion inventory investment registered in the third. Retail motor vehicle inventories accounted for almost half of this buildup while the remainder was broad-based across the manufacturing sector. As sales grew more modestly than inventories, the inventory-to-sales ratio edged above its all-time low level.

Exports subtract from growth

Real exports subtracted from growth, dropping 8.0%. The weakness was largely in automotive exports as motor vehicle sales in the United States, the destination of most Canadian automotive production, plunged in the fourth quarter. Exports of energy products rose sharply as did those of services, especially non-resident spending on travel in Canada.

Real imports dropped 1.0%, with particular weakness in automotive parts. This reflected the reduced need for imported parts for Canadian production since exports of motor vehicles dropped. Imports of services edged up as Canadians spent more on international travel.

Current account surplus remains high

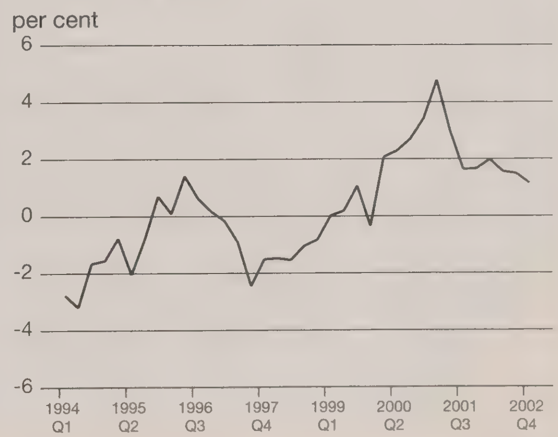
The current account surplus decreased $3.7 billion to $13.2 billion or 1.1% of GDP (Chart 2). While the greater decline in real exports than imports lowered the trade balance, this was partly offset by an improvement in the terms of trade (export prices rose more than import prices). A jump in dividends paid to non-residents also pushed down the current account surplus.

Despite declining throughout the year, the current account surplus stood at $17.3 billion for all of 2002, the third consecutive year that it exceeded $17 billion, a level never reached before 2000.

Inflation moves higher with energy prices

The GDP deflator, a comprehensive measure of inflation, rose 5.0% in the fourth quarter, to stand 4.2% above its level a year earlier. The fourth-quarter rise was driven largely by a jump in the price of exported energy products. The pace of growth in the consumption deflator moderated in the fourth quarter.

Chart 2
Current account as a percentage of nominal GDP



Year-over-year consumer price inflation rose to 4.5% in January, as energy prices jumped. Core CPI inflation, which excludes the eight most volatile items, was 3.3%, slightly above the target band of 1% to 3%.

Corporate profits climb higher

Corporate profits increased 11.5% in the fourth quarter. This fourth consecutive double-digit gain raised profits' share of GDP to 11.3%, well above the historical average of 9.9%. The vibrant housing market boosted construction industry profits. Higher energy prices helped petroleum and coal producers while increased energy exports benefited the oil and gas extraction industry. Strong domestic motor vehicle sales boosted retail sector profits. However, profit growth moderated in manufacturing overall, especially in the automotive sector, as U.S. demand softened.

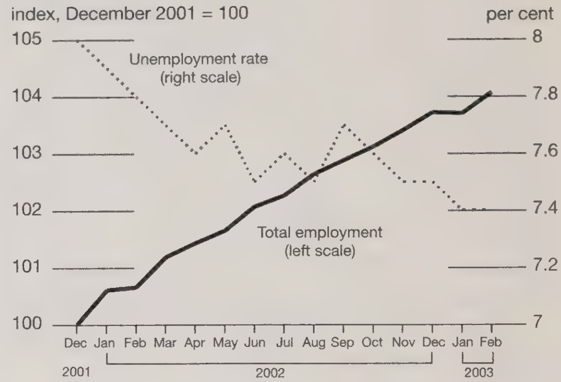
Employment continues to rise

Employment jumped 3.2% in the fourth quarter, bringing job creation since December 2001 to 560,000. The majority of the jobs created were full-time.

The strong labour market induced 522,000 people to enter the labour force during 2002. This raised the participation rate to 67.5% in December, a level equalled only once before in January 1990.

The economy added another 53,000 jobs in January and February 2003. All were full-time. The participation rate again stood at a record 67.5% in February while the unemployment rate was 7.4% in January and February, compared to 7.5% in December 2002 and 8.0% in December 2001 (Chart 3).

Chart 3
Employment and the unemployment rate



Bank of Canada raises its policy rate

On March 4, the Bank of Canada raised its key policy rate 25 basis points, citing "domestic inflation pressures, the expectation that Canadian economic activity will remain near potential in 2003, the stimulative stance of monetary policy, and improved conditions in capital markets."

Canadian short-term interest rates have risen modestly during 2003 while those in the United States have been steady, widening the spread between Canadian and U.S. short-term rates. Long-term rate differentials have also increased modestly.

The value of the Canadian dollar has risen relative to the U.S. dollar in recent months, attaining values in early March last seen in July 2000. It closed at 68.00 cents U.S. on March 6.

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THE ECONOMY IN BRIEF

DEPARTMENT OF FINANCE JUNE 2003

OVERVIEW

- In the first quarter of 2003 real gross domestic product (GDP) increased at an annual rate of 2.4%. This reflected a solid increase in domestic demand, while real exports declined 5.7% and real imports increased 2.6%.
- Led by growth in consumer spending and increased residential investment, final domestic demand rose more solidly in the first than in the fourth quarter.
- Export prices rose while import prices fell. Thus, despite a reduced volume of exports and increased imports, the trade surplus rose, contributing to a $12.7-billion widening in the current account surplus to $32.2 billion.
- The Canadian economy created nearly 600,000 net new jobs from the end of 2001 to May 2003. Employment dipped in April and May, and the unemployment rate in May was 7.8%, up from 7.3% in March but down from its recent peak of 8.0% in December 2001.

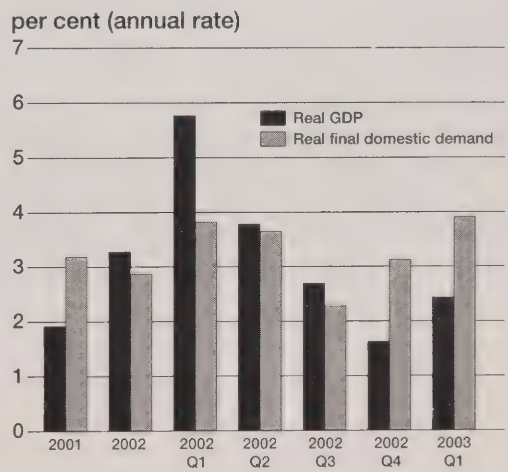
Domestic demand drives growth

Real GDP grew 2.4% in the first quarter compared with a 1.6% rise in the fourth quarter of 2002. Domestic demand led the gain (Chart 1).

Consumer spending is solid

Real consumer expenditure growth remained solid, increasing 3.5% in the first quarter compared with 4.4% in the fourth. Spending on semi-durables, non-durables and services registered solid gains. A decline in motor vehicle sales lowered outlays on durables, despite the continued strong housing market adding further impetus to spending on furniture and appliances.

Chart 1
Growth in real GDP and real final domestic demand



Note: Unless otherwise noted, data and per cent changes are quoted at annual rates. The cut-off date for data is noon, June 6, 2003.

Main economic indicators
(per cent change at annual rates unless otherwise indicated)

	2001	2002	2002:Q3	2002:Q4	2003:Q1	Most recent	
Real gross domestic product	1.9	3.3	2.7	1.6	2.4	–	
Final domestic demand	3.2	2.9	2.3	3.1	3.9	–	
Government expenditure						–	
Goods and services	3.7	3.0	4.2	2.4	4.0	–	
Gross fixed capital	10.3	11.8	5.6	-0.2	5.2	–	
Consumer expenditure	2.6	3.4	1.3	4.4	3.5	–	
Residential investment	10.3	14.2	15.2	11.1	12.7	–	
Business fixed investment	1.0	-6.0	-2.8	-5.0	1.1	–	
Non-residential construction	2.2	-10.4	-5.4	-6.5	-0.9	–	
Machinery and equipment	0.3	-3.2	-1.3	-4.1	2.2	–	
Business inventory investment ($ billion)	-2.1	5.9	8.0	11.6	18.3	–	
Exports	-3.1	-0.1	8.5	-8.7	-5.7	–	
Imports	-5.0	0.6	5.8	-1.4	2.6	–	
Current account balance							
(nominal $ billion)	26.9	23.4	21.3	19.5	32.2	–	
(percentage of GDP)	2.4	2.0	1.8	1.6	2.7	–	
Nominal personal income	4.0	3.3	3.2	4.2	4.0	–	
Nominal personal disposable income	4.4	4.7	2.0	3.7	3.9	–	
Real personal disposable income	2.6	2.7	-1.6	1.9	1.1	–	
Profits before taxes	-6.0	4.3	19.4	6.1	34.0	–	
Costs and prices (%, y/y)							
GDP price deflator	1.1	0.9	1.6	4.1	5.2	–	
Consumer price index	2.6	2.2	2.3	3.8	4.5	3.0	Apr-2003
CPI excluding eight most volatile items	2.0	2.4	2.4	2.8	3.1	2.1	Apr-2003
Unit labour costs	2.6	1.5	1.1	2.2	2.1		
Wage settlements (total)	3.2	2.8	2.8	3.3	2.8	2.9	Mar-2003
Labour market							
Unemployment rate (%)	7.2	7.7	7.6	7.6	7.4	7.8	May-2003
Employment growth	1.1	2.2	3.5	3.2	2.2	-1.0	May-2003
Financial markets (average)							
Exchange rate (cents U.S.)	64.6	63.7	64.0	63.7	66.3	74.39	05-Jun-03
Prime interest rate (%)	5.8	4.2	4.5	4.5	4.6	5.00	05-Jun-03

Note: Real values are in chained 1997 dollars.
Sources: Statistics Canada, the Bank of Canada and Human Resources Development Canada.

Personal income increased a healthy 4.0% in the quarter, as employment gains boosted earned income. Real personal disposable income increased about 1% while real personal disposable income per capita stood more than 13% above its most recent low in the second quarter of 1996.

The personal savings rate fell from 3.2% in the fourth quarter to 2.6% in the first.

Residential investment continues to be strong

Low interest rates continued to support the housing market. Residential investment increased 12.7% in the first quarter, the third consecutive double-digit increase. Housing starts rose solidly, contributing to a 10.5% increase in new construction. Spending on renovations and house resales both showed strong growth.

Business fixed investment shows signs of recovery

Business spending on plant and equipment increased 1.1% in the first quarter, following declines in the two previous quarters. Investment in machinery and equipment rose 2.2% despite drops in business spending on telecommunications and transportation equipment. Expenditures on agricultural and other machinery and on computers and software rose.

Non-residential construction decreased for the seventh consecutive quarter, reflecting reduced spending on building construction.

Businesses add to inventories

Businesses boosted inventories $18.3 billion in the first quarter, up from the $11.6-billion inventory investment in the fourth. While the recent accumulation has raised the inventory-to-sales ratio, it remains well within the range of the past five years.

Exports subtract from growth

Real exports subtracted from growth, dropping 5.7%. The weakness, largely in industrial products, trucks and machinery and equipment, reflected weak growth in the United States (Chart 2). Canadian service exports also declined, as spending on travel in Canada weakened. Exports of cars and automotive parts rose.

Real imports rose along with domestic demand, increasing 2.6%. Gains were most noticeable in industrial and automotive products and consumer goods. Imports of trucks and automotive parts jumped while those of cars fell.

Current account surplus widens

The current account surplus increased $12.7 billion to $32.2 billion, or 2.7% of GDP (Chart 3). Rising export prices, especially for energy products and particularly natural gas, and falling import prices improved the terms of trade and more than offset the negative impact of the decline in real exports and the increase in real imports. A sharp drop in dividends paid to non-residents and reduced interest costs for U.S. dollar denominated bonds due to the strengthening Canadian dollar also pushed up the current account surplus. This marks the 15th consecutive quarterly surplus, a sharp contrast to the deficits registered over most of the 1980s and 1990s.

Chart 2
Canadian real goods exports and U.S. industrial production

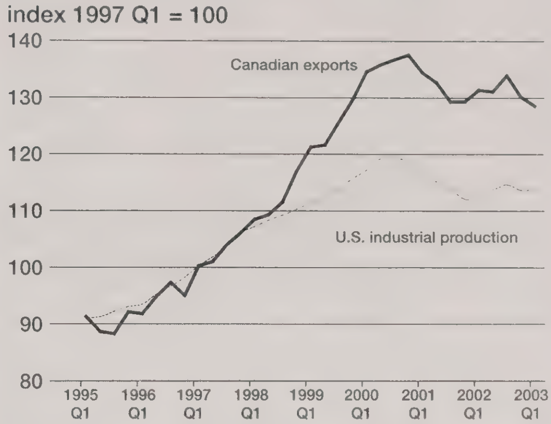
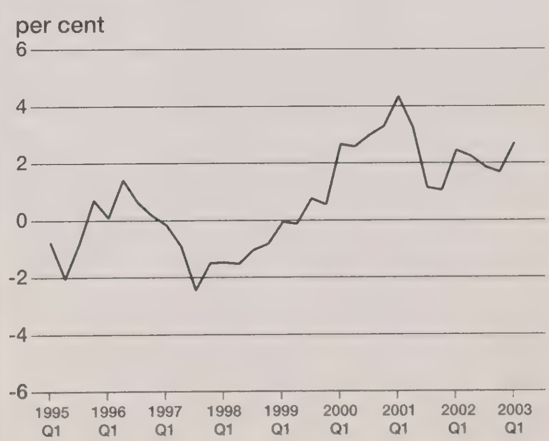


Chart 3
Current account as a percentage of nominal GDP



GDP inflation rises with energy prices

The GDP deflator, a comprehensive measure of inflation, rose 7.5% in the first quarter to stand 5.2% above its level a year earlier. The first-quarter rise was driven by rising prices for exported energy products. The pace of growth in the consumption deflator was a more moderate 2.9% quarter over quarter.

Year-over-year consumer price inflation dropped to 3.0% in April from over 4% in the previous three months, as gasoline and electricity prices fell. Core CPI inflation, which excludes the eight most volatile items, was 2.1%, near the mid-point of the target band of 1% to 3%.

Corporate profits climb to record level

Corporate profits increased 34.0% in the first quarter, following a more modest rise of 6.1% in the fourth. This double-digit gain raised profits' share of GDP to 12.5%, well above the historical average of 10.0%. Profits for the oil and gas industry drove the gain, boosted by higher prices. Wholesalers also recorded strong gains, including those dealing with petroleum products.

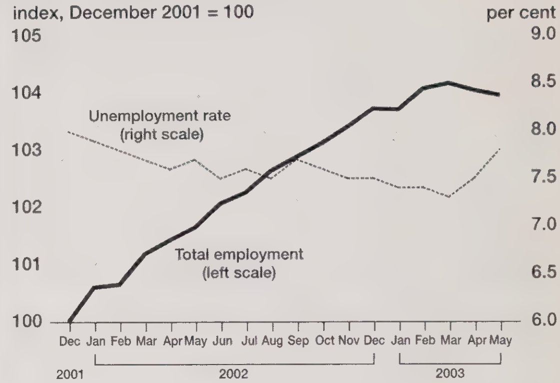
Hourly labour productivity declined in the quarter as hours worked outgrew output. Growth in labour costs per unit of output slowed to 0.9% from 5.1% in the fourth quarter to stand 2.1% higher than a year earlier.

Employment gains continue in Q1

Employment rose 2.2% in the first quarter. The entire gain was in full-time work.

Despite dips in employment in April and May as weak U.S. growth, the war in Iraq and SARS all took their toll, the economy added nearly 600,000 net new jobs from the end of 2001 to May 2003. This strong job creation induced over 600,000 people to enter the labour force since December 2001. The participation rate in May stood at 67.5%, equal to its record high level, while the unemployment rate was 7.8% compared to 8.0% in December 2001 (Chart 4).

Chart 4
Employment and the unemployment rate



Bank of Canada leaves rates unchanged

On June 3 the Bank of Canada left its key policy rate unchanged, as it now believes that "both core and total CPI inflation will return to the 2 per cent target somewhat earlier than the Bank expected in April." This decision followed 25-basis-point increases in the Bank's target rate in both March and April, which had raised the cumulative increase since early 2002 to 125 basis points.

Canadian short-term rates have increased modestly during 2003 while those in the United States have dipped, widening the spread between Canadian and U.S. short-term rates. Long-term rate differentials have also risen, as long-term rates have declined more in the United States than in Canada.

The value of the Canadian dollar has increased relative to the U.S. dollar so far in 2003. It closed at 74.39 cents U.S. on June 5, its highest value in over six years.

The main source of data used in this publication is Statistics Canada. Subscription inquiries should be directed to the Distribution Centre at (613) 995-2855. For other inquiries about this publication, contact Mostafa Askari at (613) 992-3055.
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THE ECONOMY IN BRIEF

DEPARTMENT OF FINANCE SEPTEMBER 2003

OVERVIEW

- In the second quarter of 2003 real gross domestic product (GDP) dipped 0.3% at an annual rate, the first decrease since the third quarter of 2001. Growth was restrained by the SARS outbreak, the BSE-related beef export ban and a sharp appreciation of the Canadian dollar.
- Final domestic demand grew solidly, albeit at a slower pace than in the first quarter. Inventory accumulation was smaller in the second quarter than in the first.
- Real exports added to growth, increasing 2.2% following two consecutive declines. Canadian service exports dropped, as travel and transportation-related industries suffered from the SARS fallout and exports of live animals and meat products decreased due to the mad cow scare.
- The current account registered its 16th consecutive quarterly surplus. However, a 5.6% increase in real imports reduced GDP growth and contributed to a $7.4-billion narrowing in the current account to $20.3 billion or 1.7% of nominal GDP.
- With job losses of over 32,000 in July and August, net job creation in the Canadian economy sat at about 52,000 for the period from the end of 2002 to August 2003. The unemployment rate in August was 8.0%.

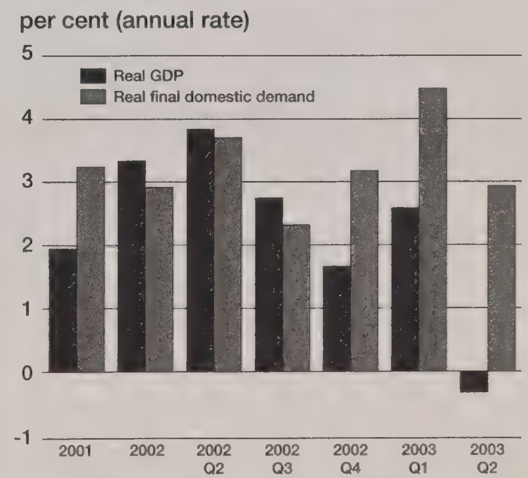
Real GDP dips

Real GDP declined 0.3% in the second quarter following a 2.6% increase in the first, as inventory investment fell and real imports increased (Chart 1).

Consumer spending is solid

Real consumer expenditure grew a solid 2.7% in the second quarter, somewhat slower than the 4.4% pace of the two previous quarters. Spending rose in all major categories but was most notable in durables, especially furniture and appliances given continued buoyancy in the housing market.

Chart 1
Growth in real GDP and real final domestic demand



Note: Unless otherwise noted, data and per cent changes are quoted at annual rates. The cut-off date for data is noon, September 5, 2003.

Main economic indicators
(per cent change at annual rates unless otherwise indicated)

	2001	2002	2002:Q4	2003:Q1	2003:Q2		Most recent
Real gross domestic product	1.9	3.3	1.6	2.6	-0.3		–
Final domestic demand	3.2	2.9	3.1	4.4	2.9		–
Government expenditure							–
Goods and services	3.7	3.0	2.4	2.4	3.6		–
Gross fixed capital	10.3	11.8	-0.2	11.6	6.6		–
Consumer expenditure	2.6	3.4	4.4	4.4	2.7		–
Residential investment	10.3	14.2	11.1	4.0	3.0		–
Business fixed investment	1.0	-6.0	-5.0	6.7	1.6		–
Non-residential construction	2.2	-10.4	-6.5	3.6	0.2		–
Machinery and equipment	0.3	-3.2	-4.1	8.6	2.4		–
Business inventory investment ($ billion)	-2.1	5.9	11.6	20.2	13.1		–
Exports	-3.1	-0.1	-8.7	-6.7	2.2		–
Imports	-5.0	0.6	-1.4	3.8	5.6		–
Current account balance							
(nominal $ billion)	26.9	23.4	19.5	27.7	20.3		–
(percentage of GDP)	2.4	2.0	1.7	2.3	1.7		–
Nominal personal income	4.0	3.3	4.2	3.4	1.6		–
Nominal personal disposable income	4.4	4.7	3.7	3.1	2.6		–
Real personal disposable income	2.6	2.7	1.9	0.4	3.4		–
Profits before taxes	-6.0	4.3	6.1	36.1	-28.9		–
Costs and prices (%, y/y)							
GDP price deflator	1.1	0.9	4.1	5.2	3.2		–
Consumer price index	2.6	2.2	3.8	4.5	2.8	2.2	Jul-2003
CPI excluding eight most volatile items	2.0	2.4	2.8	3.1	2.2	1.8	Jul-2003
Unit labour costs	2.6	1.5	2.2	2.1	2.5		
Wage settlements (total)	3.2	2.8	3.3	2.8	2.6	2.2	Jun-2003
Labour market							
Unemployment rate (%)	7.2	7.7	7.6	7.4	7.7	8.0	Aug-2003
Employment growth	1.1	2.2	3.2	2.2	0.4	-1.4	Aug-2003
Financial markets (average)							
Exchange rate (cents U.S.)	64.6	63.7	63.7	66.3	71.6	72.98	04-Sep-03
Prime interest rate (%)	5.8	4.2	4.5	4.6	5.0	4.50	04-Sep-03

Note: Real values are in chained 1997 dollars.
Sources: Statistics Canada, the Bank of Canada and Human Resources Development Canada.

Personal income increased 1.6% in the quarter, as more moderate employment growth than in the first quarter slowed labour income gains. Real personal disposable income increased 3.4% while real personal disposable income per capita reached a record level and stood 14% above its most recent low in the second quarter of 1996. The personal savings rate edged up to 2.4% from 2.3% in the first quarter.

Residential investment growth continues

Low interest rates continued to support the housing market. Residential investment increased 3.0% in the second quarter, following a gain of 4.0% in the first. While still solid, growth slowed from double-digit gains in the second half of 2002. Spending on house resales and renovations grew, more than offsetting a 3.9% decrease in new construction.

Business fixed investment rises again

Business spending on plant and equipment increased 1.6% in the second quarter, following a 6.7% gain in the first. Investment in machinery and equipment rose 2.4% as increased expenditures on industrial machinery and computers were partly offset by reduced spending on other high technology products, such as software and telecommunications equipment, and on transportation equipment.

Non-residential construction edged up, the second consecutive gain after six declines. Spending on building construction increased more than enough to offset reduced expenditure on engineering projects.

Businesses add less to inventories

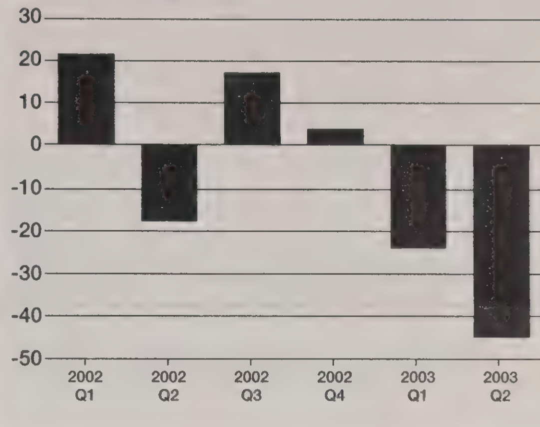
Businesses boosted inventories by $13.1 billion in the second quarter, down from the $20.2-billion inventory accumulation in the first. This deceleration in inventory investment, a major factor behind the decline in GDP, was centred entirely in the wholesale and retail trade industries, with motor vehicles accounting for over half of the slowdown. On the other hand, farmers accumulated cattle inventory due to the ban on exports caused by the single case of mad cow disease.

Exports add to growth

Real exports added to growth, rising 2.2% following two consecutive declines. Canadian service exports dropped, as travel and transportation-related industries suffered from the fallout of SARS and the appreciation of the Canadian dollar in the first half of the year (Chart 2).

Real imports rose 5.6%, outpacing the 2.9% gain in final domestic demand and the 2.2% rise in exports. Imports of machinery and equipment, automotive products and other consumer goods registered noticeable jumps.

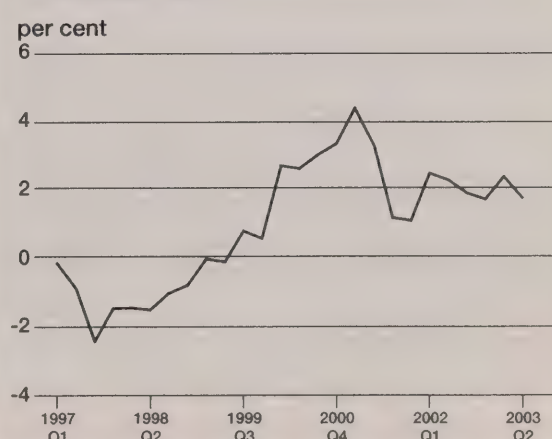
Chart 2
Growth of real exports of travel services



Current account surplus narrows

The current account registered its 16th consecutive quarterly surplus, a contrast to the deficits over most of the 1980s and 1990s. However, the surplus shrank by $7.4 billion to $20.3 billion or 1.7% of nominal GDP (Chart 3). The marked increase in real imports, together with a sharp jump in dividends paid to non-residents, depressed the current account surplus.

Chart 3
Current account as a percentage of nominal GDP



GDP deflator declines

The GDP deflator, a comprehensive measure of domestic prices, fell 1.4% relative to the first quarter to sit 3.2% above its level of a year earlier. Falling export prices, especially for energy products, drove the decrease.

Year-over-year consumer price inflation dropped to 2.2% in July, down from a recent high of 4.6% in February. Core CPI inflation, which excludes the eight most volatile items, was 1.8% in July, slightly below the mid-point of the target band of 1% to 3%. Part of the downward pressure on CPI inflation came from the negative impact of SARS on the cost of travellers' accommodations.

Corporate profits drop

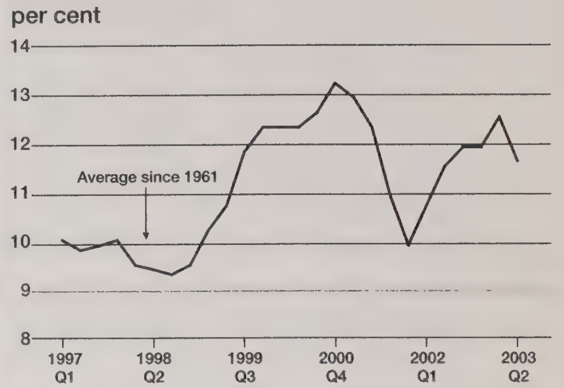
Corporate profits decreased 28.9% in the second quarter, following a 36.1% gain in the first. While this lowered profits as a share of GDP to 11.6%, it remained well above the 10.0% historical average (Chart 4). Falling energy prices following a run-up in the first quarter reduced profits in the oil and gas industry and led the overall decline. Also, exporters who price in U.S. dollars saw their Canadian dollar revenue reduced by the sharp appreciation of the Canadian currency relative to its American counterpart.

Employment gains slow in Q2

Employment rose 0.4% in the second quarter, compared with 2.2% in the first. Gains were concentrated in full-time work.

With job losses totalling more than 32,000 in July and August, net job creation stood at about 52,000 for the period from the end of 2002 to August 2003. Given that the participation rate has remained at its record high level of 67.5% for most of the year, the unemployment rate was 8.0% in August, up from 7.3% in March 2003.

Chart 4
Profits before taxes as a share of nominal GDP



Hourly labour productivity increased as hours worked fell more than output. Growth in labour costs per unit of output increased to 1.7% in the second quarter from 0.8% in the first to stand 2.5% higher than a year earlier.

Bank of Canada lowers target interest rate

On September 3, the Bank of Canada announced a 25-basis-point reduction in its key policy rate, stating that "core inflation has declined below the 2 per cent inflation target earlier than the Bank anticipated, and it appears that lower inflation will persist over the coming months."

In recent months, Canadian short-term rates have declined with the key policy rate while U.S. short rates have remained largely unchanged. U.S. long-term rates have risen more than Canadian rates.

The value of the Canadian dollar relative to its U.S. counterpart has eased off the recent high close of 74.91 cents U.S. on June 13. It closed at 72.98 cents U.S. on September 4.

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THE ECONOMY IN BRIEF

DEPARTMENT OF FINANCE DECEMBER 2003

OVERVIEW

- In the third quarter of 2003, led by final domestic demand, real gross domestic product (GDP) resumed growth, rising 1.1% following a second-quarter drop of 0.7%. Growth was supported by continued low interest rates but dampened by the August power outage in Ontario and the sharp appreciation of the Canadian dollar.
- Final domestic demand grew 5.7%, a stronger pace than in the second quarter. Consumer spending and residential and business investment all increased robustly, with investment in machinery and equipment jumping 18.8%.
- However, businesses' accumulation of inventories was much smaller than in the second quarter. Further, real exports subtracted from growth for the fourth consecutive quarter, decreasing 0.9%.
- The current account registered its 17th consecutive quarterly surplus, as a third consecutive decrease in import prices boosted the surplus to $29.3 billion, or 2.4% of nominal GDP.
- The Canadian economy created 166,000 net new jobs from September to November. The unemployment rate fell to 7.5% in November after peaking at 8.0% in August.

Real GDP growth resumes

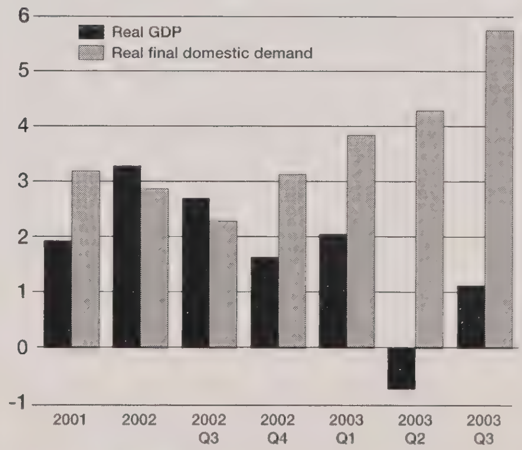
Real GDP increased 1.1% in the third quarter following a 0.7% decrease in the second, as final domestic demand strengthened (Chart 1).

Consumer spending robust

Real consumer expenditure grew a solid 5.1% in the third quarter, its strongest pace in three years. Spending rose in all major categories but was most notable in durables, especially motor vehicles as sales incentives attracted buyers to showrooms. Expenditures on furniture and appliances also rose sharply given continued housing market buoyancy.

Note: Unless otherwise noted, data and per cent changes are quoted at annual rates. The cut-off date for data is end of day, December 5, 2003.

Chart 1
Growth in real GDP and real final domestic demand
per cent (annual rate)



Main economic indicators
(per cent change at annual rates unless otherwise indicated)

	2001	2002	2003:Q1	2003:Q2	2003:Q3	Most recent	
Real gross domestic product	1.9	3.3	2.0	-0.7	1.1		–
Final domestic demand	3.2	2.9	3.8	4.3	5.7		–
Government expenditure							–
Goods and services	3.7	3.0	2.5	6.9	1.3		–
Gross fixed capital	10.3	11.8	10.1	6.4	-2.4		–
Consumer expenditure	2.6	3.4	3.9	3.8	5.1		–
Residential investment	10.3	14.2	1.5	5.1	18.2		–
Business fixed investment	1.0	-6.0	5.6	1.4	13.2		–
Non-residential construction	2.2	-10.4	5.2	-0.1	4.4		–
Machinery and equipment	0.3	-3.2	5.9	2.3	18.8		–
Business inventory investment ($ billion)	-2.1	5.9	18.8	14.6	0.8		–
Exports	-3.1	-0.1	-5.5	-3.7	-0.9		–
Imports	-5.0	0.6	3.8	6.8	-2.1		–
Current account balance							
(nominal $ billion)	26.9	23.4	28.3	20.2	29.3		–
(percentage of GDP)	2.4	2.0	2.3	1.7	2.4		–
Nominal personal income	4.0	3.3	2.7	1.8	3.5		–
Nominal personal disposable income	4.4	4.7	4.0	1.6	3.1		–
Real personal disposable income	2.6	2.7	1.4	2.3	1.4		–
Profits before taxes	-6.0	4.3	39.8	-34.8	21.2		–
Costs and prices (%, y/y)							
GDP price deflator	1.1	0.9	5.3	3.1	3.3		–
Consumer price index	2.6	2.2	4.5	2.8	2.1	1.6	Oct-2003
CPI excluding eight most volatile items	2.0	2.4	3.1	2.2	1.7	1.8	Oct-2003
Unit labour costs	2.6	1.5	2.2	2.6	2.4		
Wage settlements (total)	3.2	2.8	2.8	2.6	3.2	3.0	Sep-2003
Labour market							
Unemployment rate (%)	7.2	7.7	7.4	7.7	7.9	7.5	Nov-2003
Employment growth	1.1	2.2	2.2	0.4	0.4	4.2	Nov-2003
Financial markets (average)							
Exchange rate (cents U.S.)	64.6	63.7	66.3	71.6	72.5	76.62	05-Dec-03
Prime interest rate (%)	5.8	4.2	4.6	5.0	4.7	4.50	05-Dec-03

Note: Real values are in chained 1997 dollars.
Sources: Statistics Canada, the Bank of Canada and Human Resources Development Canada.

Personal income increased 3.5% in the quarter, as employment grew at a pace similar to that in the second quarter while the average wage rate increased. Real personal disposable income rose 1.4% while real personal disposable income per capita edged higher to a record level, nearly 14% above its most recent low in the second quarter of 1996. The personal savings rate fell to 1.3% from 2.2% in the second quarter.

Strong residential investment growth

Low interest rates continued to support the housing market. Residential investment soared 18.2% in the third quarter, returning to the double-digit increases regularly seen from mid-2000 to the end of 2002. This strong third-quarter increase followed gains of 1.5% and 5.1% in the first two quarters of 2003. Spending rose in all major categories, with real estate transfer costs on sales of existing homes surging. New construction activity jumped as

housing starts reached their highest level since the late 1980s. Renovations also grew solidly.

Robust business fixed investment

Business spending on plant and equipment increased 13.2% in the third quarter, its sharpest increase since 1997. Investment in machinery and equipment soared 18.8%, with strong spending gains on computers and other office equipment, transportation equipment (especially trucks) and telecommunications equipment.

Non-residential construction increased a solid 4.4% following a dip of 0.1% in the second quarter. Spending on building construction and engineering projects both contributed to the overall gain.

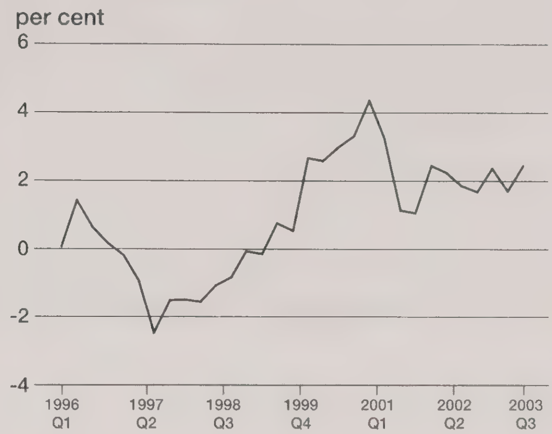
Businesses add less to inventories

Businesses boosted inventories by $0.8 billion in the third quarter, down from the $14.6-billion inventory accumulation in the second. This deceleration in inventory investment, which reduced GDP growth, was concentrated in the drawdown of lumber inventories to meet the strong demand from the housing market and the clearance of motor vehicles at both the wholesale and retail trade levels. On the other hand, farm inventories jumped as grain inventories rose and the holding of livestock ballooned given the continued export ban caused by the single case of mad cow disease. The slow pace of inventory accumulation reduced the economy-wide inventory-to-sales ratio.

Exports subtract from growth

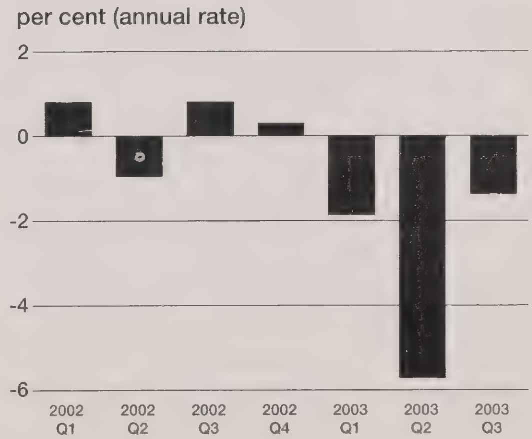
Real exports subtracted from growth for the fourth consecutive quarter, dipping 0.9%. Despite strong U.S. growth in the quarter, Canadian goods exports dropped, especially of machinery and equipment and automotive products. The sharp appreciation of the Canadian dollar in 2003 (up 17% over the first nine months) dampened exports. However, service exports soared as travel and tourism recovered from the effects of severe acute respiratory syndrome and the war in Iraq.

Chart 2
Current account as a percentage of nominal GDP



Real imports declined more than exports in the third quarter, dropping 2.1% despite the rise in final domestic demand and the appreciation of the dollar. This partly reflected much lower business inventory investment, which typically has a large import content. The drop in imports was largely in automotive products, consistent with an inventory decumulation to meet motor vehicle sales. Imports of machinery and equipment increased to meet the stronger investment demand.

Chart 3
Change in import prices



Current account surplus widens

The current account registered a 17th consecutive quarterly surplus, in contrast to deficits over most of the 1980s and 1990s. The surplus increased $9 billion to $29.3 billion, or 2.4% of nominal GDP (Chart 2). Adding to the positive impact of movements in trade volumes, markedly lower import prices accompanied an appreciating Canadian dollar, reducing the value of imports and boosting the trade surplus (Chart 3).

Inflation remains low

The GDP deflator, a comprehensive measure of domestic prices, rose 3.3% in the third quarter of 2003 following a 2% drop in the second. Relative to the third quarter of 2002, prices stood 3.3% higher.

Year-over-year consumer price inflation dropped to 1.6% in October, down from a recent high of 4.6% in February. Core CPI inflation, which excludes the eight most volatile items, was 1.8%, slightly below the mid-point of the target band of 1% to 3%.

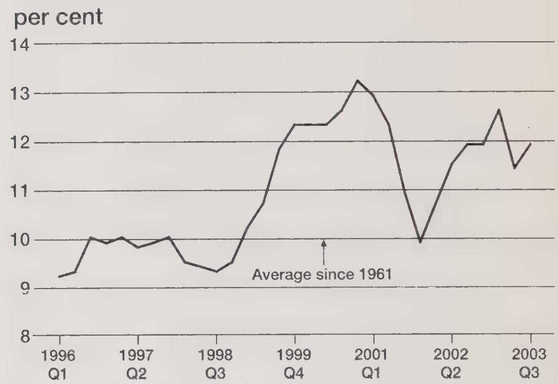
Corporate profits increase

Corporate profits increased 21.2% in the third quarter, following a 34.8% drop in the second. At an 11.9% share of GDP, profits continued to stand well above their 10.0% historical average (Chart 4). Manufacturers, especially of automotive products, saw profits increase with sales, while the retail industry benefited from strong consumer spending. Mining profits jumped as strong demand reduced inventories and raised prices. Exporters who price in U.S. dollars saw their Canadian-dollar revenue negatively affected by the appreciation of the Canadian dollar while importers gained a cost advantage.

Solid employment growth resumes

Employment grew a cumulative 166,000 in September, October and November. The participation rate sat at 67.6% in November,

Chart 4
Profits before taxes as a share of nominal GDP



equal to its record high, while the unemployment rate stood at 7.5%, down from 8.0% in August and September.

Hourly labour productivity increased as hours worked fell while output rose. Growth in labour costs per unit of output of 1.6% matched its pace in the second quarter to stand 2.4% higher than a year earlier.

Bank of Canada holds interest rates steady

On December 2 the Bank of Canada left its key policy rate—the Target for the Overnight Rate—unchanged at 2¾ per cent, noting that while "core and total CPI inflation have fallen below the 2 per cent inflation target… the Bank expects Canada's economic growth in the fourth quarter to rebound strongly."

Since the end of August Canadian and U.S. short-term interest rates have remained largely unchanged. Long-term rates have dipped by similar amounts in both countries.

The Canadian dollar continued to appreciate against the U.S. dollar, although at a slower pace than in the first half of the year. It closed at 76.62 cents U.S. on December 5, off the 77.04 cents U.S. level of December 2, which represented its highest closing value in over 10 years.

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THE ECONOMY IN BRIEF

DEPARTMENT OF FINANCE MARCH 2004

OVERVIEW

- In the fourth quarter of 2003 real gross domestic product (GDP) growth strengthened to 3.8% following the more modest 1.3% increase in the third. Fourth-quarter growth was the fastest since early 2002. Rebounding exports and stronger inventory investment more than offset slower final domestic demand growth. For 2003 as a whole, GDP increased 1.7%, down from 3.3% in 2002.
- Strong U.S. growth in the second half of 2003, improved conditions in other major trading partners and a bounce-back from the effects of severe acute respiratory syndrome (SARS) and the August power outage in Ontario produced a 13.5% jump in real exports following four quarterly declines.
- Final domestic demand growth slowed to 1.2% from 5.8% in the previous quarter. Consumer spending showed almost no growth following a solid increase in the third quarter, and business investment increased more modestly than in the previous quarter.
- The current account registered its 18th consecutive quarterly surplus. However, it dipped to $26.6 billion, or 2.2% of nominal GDP, from $31.4 billion, or 2.6% of GDP, in the third quarter. For 2003 in its entirety, the surplus rose to $25.8 billion from $23.4 billion in 2002.
- The Canadian economy created 220,000 net new jobs in the five-month period ending in January 2004. The unemployment rate fell to 7.4% in December and remained there in January.

Real GDP growth strengthens

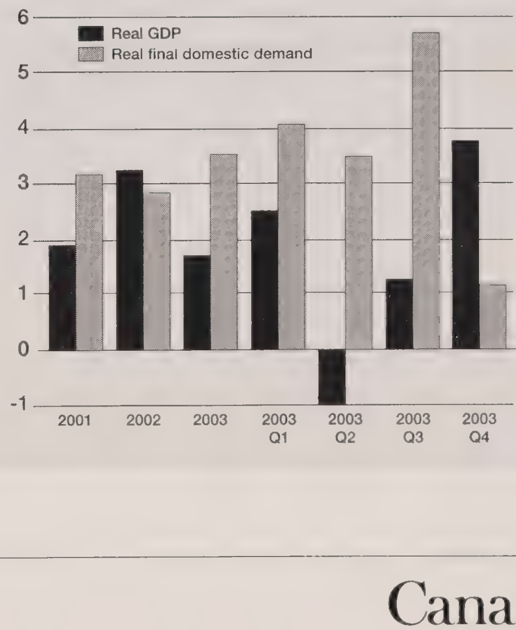
Real GDP rose 3.8% in the fourth quarter following a 1.3% increase in the third, as exports rebounded and businesses added to inventories (Chart 1).

Exports add to growth

Real exports rose 13.5% after four consecutive declines. Strong U.S. growth in the second half of the year and a bounce-back from the Ontario blackout boosted Canadian exports, especially of high-tech machinery and equipment, and automotive, energy and industrial products. The travel industry's recovery accelerated following the depressing effects of SARS and the Iraq war. However, the approximately 20% dollar appreciation in 2003 dampened export growth for 2003 as a whole.

Note: Unless otherwise noted, data and per cent changes are quoted at annual rates. The cut-off date for data is end of day, March 2, 2004.

Chart 1
Growth in real GDP and real final domestic demand
per cent (annual rate)



Main economic indicators
(per cent change at annual rates unless otherwise indicated)

	2002	2003	2003:Q2	2003:Q3	2003:Q4	Most recent	
Real gross domestic product	3.3	1.7	-1.0	1.3	3.8		–
Final domestic demand	2.9	3.6	3.5	5.8	1.2		–
Government expenditure							–
Goods and services	3.0	3.0	4.7	1.4	0.6		–
Gross fixed capital	11.8	5.8	6.3	0.5	3.8		–
Consumer expenditure	3.4	3.3	3.5	4.6	0.1		–
Residential investment	14.2	7.5	1.2	18.6	10.0		–
Business fixed investment	-6.0	3.4	2.2	14.4	2.2		–
Non-residential construction	-10.4	0.7	1.4	6.9	4.0		–
Machinery and equipment	-3.2	5.0	2.7	19.2	1.1		–
Business inventory investment ($ billion)	5.9	12.2	15.6	2.9	11.0		–
Exports	-0.1	-2.1	-3.1	-1.7	13.5		–
Imports	0.6	4.0	5.4	-4.0	17.8		–
Current account balance							
(nominal $ billion)	23.4	25.8	20.4	31.4	26.6		–
(percentage of GDP)	2.0	2.1	1.7	2.6	2.2		–
Nominal personal income	3.3	2.7	1.6	3.2	2.6		–
Nominal personal disposable income	4.7	2.8	2.1	1.5	1.1		–
Real personal disposable income	2.7	1.1	2.8	-0.3	1.1		–
Profits before taxes	4.3	10.1	-35.9	21.4	14.7		–
Costs and prices (%, y/y)							
GDP price deflator	0.9	3.4	3.0	3.3	2.3		–
Consumer price index	2.2	2.8	2.8	2.1	1.7	1.2	Jan-2004
CPI excluding eight most volatile items	2.4	2.2	2.2	1.7	1.9	1.5	Jan-2004
Unit labour costs	1.5	1.6	2.3	1.9	0.5		
Wage settlements (total)	2.8	2.6	2.5	3.1	2.1	2.6	Dec-2003
Labour market							
Unemployment rate (%)	7.7	7.6	7.7	7.9	7.5	7.4	Jan-2004
Employment growth	2.2	2.2	0.7	0.8	3.6	1.1	Jan-2004
Financial markets (average)							
Exchange rate (cents U.S.)	63.7	71.6	71.6	72.5	76.0	74.48	02-Mar-04
Prime interest rate (%)	4.2	4.7	5.0	4.7	4.5	4.00	02-Mar-04

Note: Real values are in chained 1997 dollars.
Sources: Statistics Canada, the Bank of Canada and Human Resources Development Canada.

Consumer spending flattens

Real consumer expenditure grew 0.1% in the fourth quarter following a 4.6% rise in the third. Sharply reduced spending on durables offset a solid 4.0% gain in services. Motor vehicle sales plunged as incentive programs had shifted sales to the third quarter.

Solid employment growth boosted personal income 2.6% in the fourth quarter. Labour income climbed with employment, but a drop in investment income moderated overall growth. Real personal disposable income rose 1.1% while real personal disposable income per capita was largely unchanged. The personal savings rate edged up to 1.5% from 1.3% in the third quarter.

Strong residential investment growth

Low interest rates continued to support the housing market. Residential investment increased a robust 10.0% in the fourth quarter, following

growth of about 19% in the third. New construction activity jumped, as housing starts remained at a high level in the fourth quarter. Renovations also grew solidly. However, while remaining at a healthy level, sales of existing homes declined, reducing real estate transfer costs.

Modest business fixed investment growth

Business spending on plant and equipment grew a modest 2.2% in the fourth quarter, a marked slowdown from the 14.4% jump in the previous quarter. Investment in machinery and equipment rose a weaker 1.1% after increasing 19.2% in the third quarter. While purchases of cars inched up, those of trucks and other transportation equipment, especially aircraft, fell. Investment in information and communications technology, however, appears to be on a sharp rebound from its depressed activity of recent years. It climbed 17.9% in software and soared 47.4% in telecommunications equipment.

Non-residential construction increased a solid 4.0% following a gain of 6.9% in the third quarter. Spending on engineering projects accounted for the gain, as spending on building construction fell.

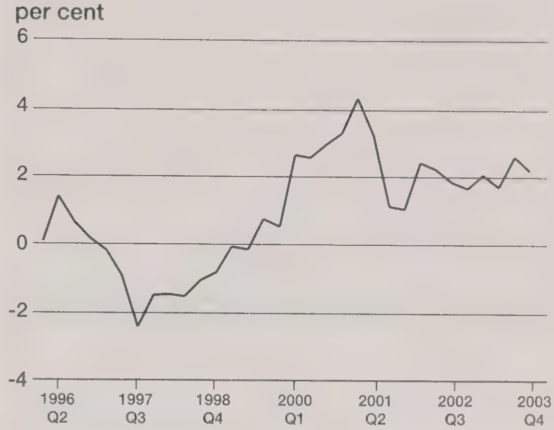
Businesses add more to inventories

Businesses boosted inventories $11.0 billion in the fourth quarter, up sharply from the $2.9-billion inventory accumulation in the third. Retail inventories drove this investment, partly reflecting an increase in motor vehicle inventories as imports rose while sales declined. Inventories of livestock continued to accumulate due to the ban on beef exports, while stocks of grains increased following a good harvest.

Imports increase more than exports

Boosted by the appreciation of the dollar and higher inventory investment, real imports increased more than exports in the fourth quarter, rising 17.8%. Imports of high-tech equipment and automotive and energy products led the way in the goods category. Spending on travel abroad also surged as the fear of SARS and the war in Iraq subsided while the appreciation of the dollar made foreign travel less expensive.

Chart 2
Current account as a percentage of nominal GDP



Current account surplus widens

The current account registered its 18th consecutive quarterly surplus, in contrast to deficits over most of the 1980s and 1990s. However, the surplus decreased $4.8 billion to $26.6 billion, or 2.2% of nominal GDP (Chart 2). Lower dividends received from non-residents plus smaller retained earnings by Canadian-owned corporations abroad compounded the decline in the nominal trade balance in the fourth quarter.

For 2003 as a whole, the appreciation of the Canadian dollar reduced interest payments on foreign currency deposits and U.S. dollar denominated Canadian securities held in foreign portfolios. This improved the investment income deficit by $4.0 billion. The current account surplus thus increased to $25.8 billion in 2003 from $23.4 billion in 2002.

Inflation remains low

The GDP deflator, a comprehensive measure of domestic prices, inched 0.4% higher in the fourth quarter following a 3.7% increase in the third. Relative to the fourth quarter of 2002, prices stood 2.3% higher.

Year-over-year consumer price inflation dropped to 1.2% in January 2004, down from a recent high of 4.6% in February 2003. At 1.5% in January, core CPI inflation, which excludes the eight most volatile items, was below the 2% target, which is the mid-point of the official 1% to 3% band.

Corporate profits increase

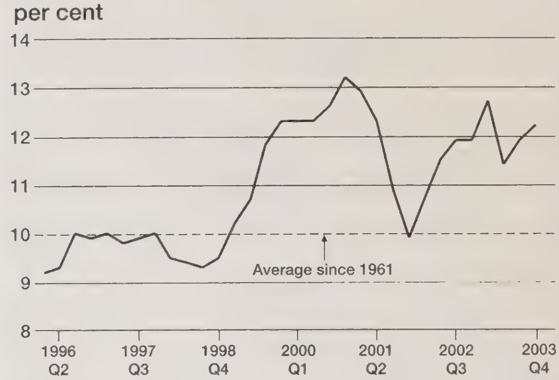
Corporate profits rose 14.7% in the fourth quarter, following a 21.4% jump in the third. Profits of depository financial institutions and transportation and mining industries rose significantly. Mining profits climbed, driven by increased demand from the U.S. and Asian markets and tight supplies. In the manufacturing sector, profits recovered marginally in the fourth quarter after a turbulent year, but remained well below the year-earlier level. Manufacturers of automotive products saw profits decrease with sales. Exporters saw their Canadian dollar revenue negatively affected by the currency appreciation while importers gained a cost advantage. At 12.2% of GDP, overall profits remained above their 10.0% historical average (Chart 3).

Solid employment growth

Employment grew 3.6% in the fourth quarter, more than four times the pace in the previous quarter. The nearly 15,000 net new jobs added in January 2004 brought the increase in employment since December 2002 to 293,000. The participation rate sat at 67.6% in January, slightly below its record high of 67.7% set in the previous month. The unemployment rate remained at December's level of 7.4%, the same rate as in March 2003, but down from 8.0% in August.

Hourly labour productivity edged only 0.3% higher in the fourth quarter as hours worked jumped with employment and closely matched output growth. Labour costs per unit of output dipped 0.3% to stand 0.5% higher than a year earlier.

Chart 3
Profits before taxes as a share of nominal GDP



Bank of Canada lowers its policy rate

On March 2, the Bank of Canada lowered its key policy rate—the Target for the Overnight Rate—to 2.25 per cent, stating that with CPI inflation significantly below 2% this decision would "provide some additional monetary stimulus... to support aggregate demand and to return inflation to the target by the end of 2005."

Since the end of November, Canadian short-term interest rates have decreased while U.S. rates have remained steady, narrowing the gap between the two. The same is true of long-term rates, but to a lesser degree.

In recent weeks, the Canadian dollar has given back a portion of its appreciation in 2003 and very early 2004 against the U.S. dollar. It closed at 74.48 cents U.S. on March 2, off the 78.67 cents U.S. level of January 9, which represented its highest closing value in over 10 years.

The main source of data used in this publication is Statistics Canada. Subscription inquiries should be directed to the Distribution Centre at (613) 995-2855. For other inquiries about this publication, contact Mostafa Askari at (613) 992-3055. Also available on the Internet at www.fin.gc.ca
Ce document est également offert en français.

THE ECONOMY IN BRIEF

DEPARTMENT OF FINANCE

JULY 2004

OVERVIEW

- In the first quarter of 2004 real gross domestic product (GDP) grew 2.4% following an increase of 3.3% in the fourth quarter of 2003.
- Final domestic demand climbed 4.8%, up from 2.3% in the previous quarter. Consumer spending increased a robust 5.5%, residential investment jumped 14.4%, and business non-residential investment rose 2.1%. Real exports increased 6.3%, as strong U.S. growth over the last three quarters boosted demand for Canadian products.
- Much of the increased domestic and foreign final demand was met from inventories. Inventory accumulation dropped to $1.0 billion in the first quarter from $12.2 billion in the fourth quarter.
- The current account surplus rose $11.3 billion to $38.0 billion, or 3.0% of nominal GDP, the 19th consecutive quarterly surplus.
- The Canadian economy created over 110,000 net new jobs in the first six months of 2004. The unemployment rate was 7.3% in June, up slightly from 7.2% in May.

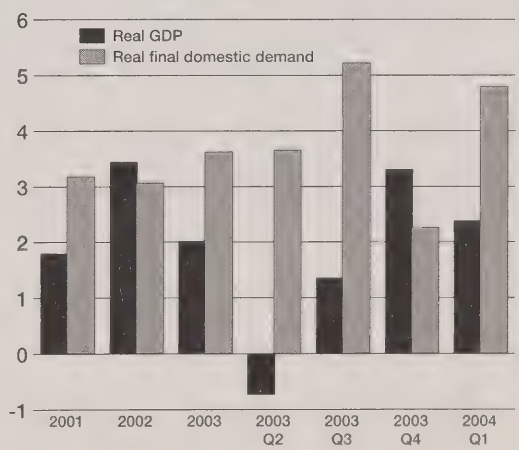
Real GDP growth continues

Real GDP rose 2.4% in the first quarter following a 3.3% fourth-quarter gain, as final domestic demand and exports grew while inventory investment slowed (Chart 1).

Consumer spending jumps

Real consumer expenditure grew 5.5% in the first quarter following minimal growth in the fourth. The increase was broadly based, with robust gains in durables and semi-durables. Spending on automotive products increased despite declining passenger car unit sales, as purchases shifted to higher-priced vehicles.

Chart 1
Growth in real GDP and real final domestic demand
per cent (annual rate)



Note: Unless otherwise noted, data and per cent changes are quoted at annual rates. The cut-off date for data is noon, July 9, 2004.

Main economic indicators
(per cent change at annual rates unless otherwise indicated)

	2002	2003	2003:Q3	2003:Q4	2004:Q1		Most recent
Real gross domestic product	3.4	2.0	1.4	3.3	2.4		–
Final domestic demand	3.1	3.6	5.2	2.3	4.8		–
Government expenditure							–
Goods and services	2.8	3.8	0.4	3.9	1.1		–
Gross fixed capital	9.1	6.8	1.0	5.9	7.9		–
Consumer expenditure	3.4	3.1	4.4	0.7	5.5		–
Residential investment	14.5	7.5	19.7	8.6	14.4		–
Business fixed investment	-4.0	3.2	12.3	3.3	2.1		–
Non-residential construction	-8.3	1.0	4.0	3.5	-4.4		–
Machinery and equipment	-1.2	4.5	17.8	3.2	6.5		–
Business inventory investment ($ billion)	2.1	11.9	3.4	12.2	1.0		–
Exports	1.1	-2.4	-1.9	9.4	6.3		–
Imports	1.4	3.8	-3.0	17.8	0.5		–
Current account balance							
(nominal $ billion)	22.7	23.8	26.5	26.6	38.0		–
(percentage of GDP)	2.0	2.0	2.2	2.2	3.0		–
Nominal personal income	2.7	3.0	3.2	2.7	3.9		–
Nominal personal disposable income	3.8	3.0	0.9	2.8	4.3		–
Real personal disposable income	1.7	1.4	-0.8	3.1	2.2		–
Profits before taxes	8.6	10.0	20.3	14.6	26.6		–
Costs and prices (%, y/y)							
GDP price deflator	1.0	3.2	3.0	2.2	1.7		–
Consumer price index	2.2	2.8	2.1	1.7	0.9	2.5	May-2004
CPI excluding eight most volatile items	2.4	2.2	1.7	1.9	1.3	1.5	May-2004
Unit labour costs	0.5	1.5	1.8	1.2	1.2		
Wage settlements (total)	2.8	2.6	3.1	2.0	2.7	2.3	Apr-2004
Labour market							
Unemployment rate (%)	7.7	7.6	7.9	7.5	7.4	7.3	Jun-2004
Employment growth	2.2	2.2	0.8	3.6	1.1	1.9	Jun-2004
Financial markets (average)							
Exchange rate (cents U.S.)	63.7	71.6	72.5	76.0	75.9	75.95	08-Jul-04
Prime interest rate (%)	4.2	4.7	4.7	4.5	4.2	3.75	08-Jul-04

Note: Real values are in chained 1997 dollars.

Sources: Statistics Canada, the Bank of Canada and Human Resources and Skills Development Canada.

While employment growth was modest, higher compensation per employee boosted labour income 3.4% and personal income 3.9% in the first quarter. Real personal disposable income rose 2.2% while real personal disposable income per capita rose 1.8%. The personal savings rate dropped to 0.5% from 1.3% in the fourth quarter.

Residential investment growth strong

Low interest rates continued to support the housing market, as residential investment increased a robust 14.4% in the first quarter. New construction activity jumped, as housing starts remained at a high level. Renovations also grew solidly while existing house resales and real estate transfer costs rebounded from drops in the fourth quarter.

Business fixed investment rises

While growth in business spending on plant and equipment rose for the fifth consecutive quarter, the pace of growth slipped to 2.1% in the first quarter from 3.3% in the fourth. Investment in machinery and equipment rose a more robust 6.5%, double the 3.2% gain in the fourth quarter. While spending on car fleets dipped, it jumped for trucks and other transportation equipment. Investment in information and communications technology continued to rebound from previous depressed levels. Spending on software rose while that on telecommunications equipment soared 25.9%. Investment in computers and other office equipment dipped.

Non-residential construction fell 4.4% after a gain of 3.5% in the fourth quarter. Spending on building construction, such as office towers and shopping malls, dropped sharply for a second consecutive quarter while that on engineering projects decreased following a sharp gain in the fourth quarter.

Businesses add less to inventories

Businesses boosted inventories $1.0 billion in the first quarter, down sharply from the fourth-quarter accumulation of $12.2 billion. With strong sales, retail inventories dropped, especially those of motor vehicles. The manufacturing, mining and utilities industries also lowered inventories, while farm inventories increased.

Exports continue to rebound

Real exports rose 6.3% after a sharp fourth-quarter gain that followed four consecutive declines. Strong foreign demand raised exports of industrial goods and materials, energy products, and especially machinery and equipment. However, exports of automotive products slipped, as U.S. motor vehicle sales fell.

Imports flatten

Real imports edged up 0.5%. Imports of machinery and equipment and industrial products rose while imports of automotive products, other consumer goods and forest and energy products fell.

Current account surplus widens

In the first quarter the current account registered its 19th consecutive surplus, in contrast with deficits throughout most of the 1980s and 1990s. The surplus rose $11.3 billion to $38.0 billion, or 3.0% of nominal GDP (Chart 2). Higher export prices (Chart 3), especially for energy products, added to the positive impact of real trade movements, improving the goods trade surplus by $13.7 billion. A $1.9-billion deterioration in the investment income deficit, as dividends and retained earnings from Canadian direct investments abroad fell, partly offset that gain.

Chart 2
Current account as a percentage of nominal GDP

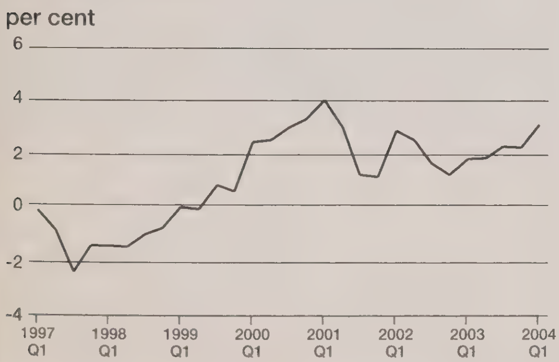
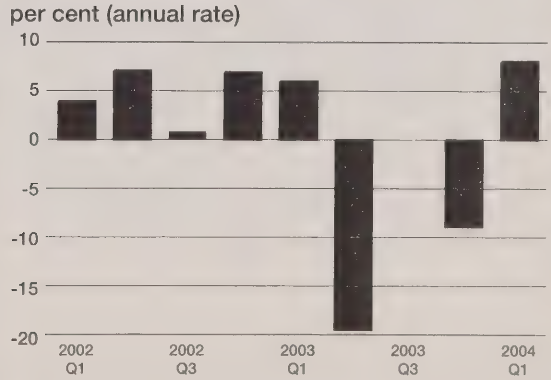


Chart 3
Change in export prices



Inflation remains low

The GDP deflator, a comprehensive measure of domestic prices, increased 4.8% in the first quarter following a 1.4% increase in the fourth, as rising energy prices boosted export prices. The GDP deflator stood 1.7% higher than a year earlier.

Year-over-year consumer price inflation rose to 2.5% in May from 1.6% in April and 0.7% in February and March as energy prices jumped. However, inflation remains well below the recent high of 4.6% in February 2003. At 1.5% in May, core CPI inflation, which excludes the eight most volatile items, sat below the 2% target, the mid-point in the official 1% to 3% band.

Corporate profits jump

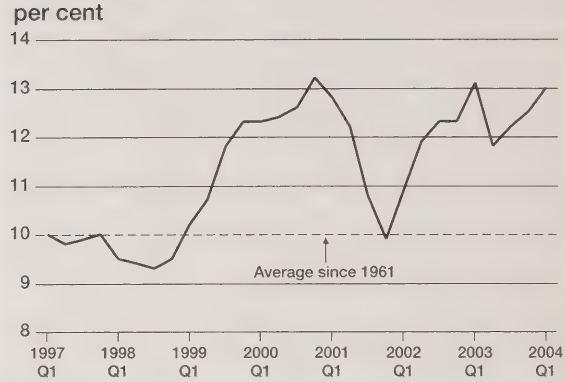
Corporate profits rose 26.6% in the first quarter, following a 14.6% jump in the fourth quarter. Profits of the oil and gas, manufacturing, and public utilities industries showed significant gains. Three consecutive double-digit increases have raised corporate profits as a share of GDP to 13.0%, well above the 10.0% historical average (Chart 4).

Employment grows

Employment grew 1.1% in the first quarter and 2.0% in the second. In the first six months of 2004 the Canadian economy created 110,800 net new jobs. The participation rate sat at 67.5% in June, slightly below its record high of 67.7% set in December 2003. The unemployment rate sat at 7.3% in June, up slightly from 7.2% in May.

Hourly labour productivity increased 0.3%, as output rose more than hours worked. Labour costs per unit of output climbed 1.0% to stand 1.2% higher than a year earlier.

Chart 4
Profits before taxes as a share of nominal GDP



Bank of Canada holds its policy rate unchanged

On June 8 the Bank of Canada left its key policy rate—the target for the overnight rate—unchanged at 2 per cent after having lowered it by 25 basis points on April 13. The Bank decided on this course since it now projects "that the economy will return close to its production potential by the third quarter of 2005 and that core inflation will move back to the 2 per cent target by the end of 2005."

The U.S. Federal Reserve raised its discount rate by one-quarter of one percentage point on June 30. The gap between short rates in the two countries has narrowed since early in 2004. Long-term rates have risen less in Canada than in the United States, reducing the spread in the two countries' long rates.

The Canadian dollar closed at 75.95 cents U.S. on July 8, off the 78.67 cents U.S. level of January 9, which was its highest closing value in over 10 years.

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THE ECONOMY IN BRIEF

DEPARTMENT OF FINANCE

SEPTEMBER 2004

OVERVIEW

- In the second quarter of 2004 real gross domestic product (GDP) grew a solid 4.3%, the most rapid pace in two years, following an increase of 3.0% in the first quarter.
- Strong foreign demand pushed real exports up 21.6% following a 6.1% first-quarter gain. Canadian final domestic demand growth slowed to 1.7% in the second quarter from 5.9% in the first. Growth in all major categories of domestic demand eased relative to the first quarter.
- Part of the increased demand was met through a 13.3% jump in imports.
- The current account surplus rose $8.7 billion to $41.7 billion or 3.2% of nominal GDP, the 20th consecutive quarterly surplus.
- The Canadian economy created over 112,000 net new jobs in the first eight months of 2004. The unemployment rate remained at 7.2% in August.

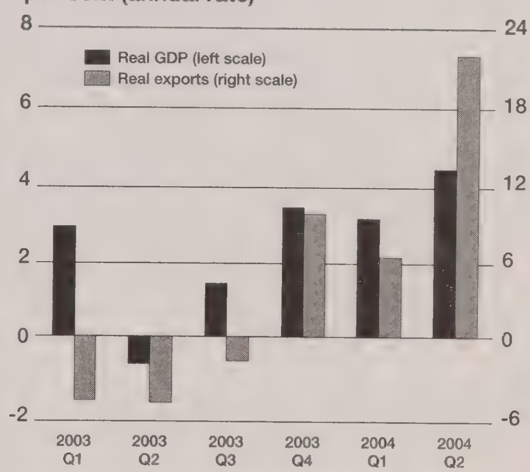
Real GDP growth steps higher

Real GDP rose 4.3% in the second quarter, the most rapid growth rate since the beginning of 2002, following a 3.0% first-quarter gain, as exports jumped to meet strong foreign demand (Chart 1). Final domestic demand advanced more modestly than in the first quarter.

Exports surge

Real exports rose a very strong 21.6%. Exports to the United States and other major trading partners grew strongly, as did exports of all major goods categories. Exports of automotive products, machinery and equipment, and industrial goods, the three largest components, all advanced more than 25%. Exports of forest products, benefiting

Chart 1
Growth in real GDP and real exports
per cent (annual rate)



Note: Unless otherwise noted, data and per cent changes are quoted at annual rates. The cut-off date for data is end of day, September 10, 2004.

Main economic indicators
(per cent change at annual rates unless otherwise indicated)

	2002	2003	2003:Q4	2004:Q1	2004:Q2	Most recent	
Real gross domestic product	3.4	2.0	3.3	3.0	4.3		–
Final domestic demand	3.1	3.6	2.3	5.9	1.7		–
Government expenditure							–
Goods and services	2.8	3.8	3.9	3.2	1.2		–
Gross fixed capital	9.1	6.8	5.9	6.0	-5.1		–
Consumer expenditure	3.4	3.1	0.7	6.4	1.3		–
Residential investment	14.5	7.5	8.6	12.0	5.8		–
Business fixed investment	-4.0	3.2	3.3	4.8	4.1		–
Non-residential construction	-8.3	1.0	3.5	-2.3	3.4		–
Machinery and equipment	-1.2	4.5	3.2	9.6	4.5		–
Business inventory investment ($ billion)	2.1	11.9	12.2	1.0	0.1		–
Exports	1.1	-2.4	9.4	6.1	21.6		–
Imports	1.4	3.8	17.8	3.8	13.3		–
Current account balance							
(nominal $ billion)	22.7	23.8	26.6	33.0	41.7		–
(percentage of GDP)	2.0	2.0	2.2	2.6	3.2		–
Nominal personal income	2.7	3.0	2.7	5.6	5.2		–
Nominal personal disposable income	3.8	3.0	2.8	6.6	8.0		–
Real personal disposable income	1.7	1.4	3.1	4.2	4.8		–
Profits before taxes	8.6	10.0	14.6	35.8	28.6		–
Costs and prices (%, y/y)							
GDP price deflator	1.0	3.2	2.2	1.6	3.5		–
Consumer price index	2.2	2.8	1.7	0.9	2.2	2.3	Jul-2004
CPI excluding eight most volatile items	2.4	2.2	1.9	1.3	1.7	1.9	Jul-2004
Unit labour costs	0.5	1.5	1.2	1.3	1.2		
Wage settlements (total)	2.8	2.6	2.0	2.8	1.3	2.6	Jun-2004
Labour market							
Unemployment rate (%)	7.7	7.6	7.5	7.4	7.2	7.2	Aug-2004
Employment growth	2.2	2.2	3.6	1.1	2.0	-0.2	Aug-2004
Financial markets (average)							
Exchange rate (cents U.S.)	63.7	71.6	76.0	75.9	73.6	77.45	10-Sep-04
Prime interest rate (%)	4.2	4.7	4.5	4.2	3.8	4.00	10-Sep-04

Note: Real values are in chained 1997 dollars.
Sources: Statistics Canada, the Bank of Canada and Human Resources and Skills Development Canada.

from the U.S. housing boom, jumped nearly 24%, the strongest gain in almost eight years.

Imports jump with exports

Real imports jumped 13.3%. Imports of machinery and equipment, industrial goods and automotive products all registered double-digit gains. Export growth likely helped boost imports as Canadian automotive and machinery and equipment production make extensive use of imported inputs.

Consumer spending growth slows

Real consumer expenditure grew 1.3% in the second quarter, down from 6.4% in the first. Spending growth on durables slowed to 3.7% from 9.2% in the first quarter. Dealer incentives aided household expenditure on motor vehicles while the robust housing market boosted furniture and appliance sales. Expenditure growth on semi-durables and services also slowed while spending on non-durables actually dropped after healthy growth in the first quarter.

Personal income registered another solid gain in the second quarter, rising 5.2% following a 5.6% increase in the first quarter. With a stronger advance in compensation per employee than in the first quarter, labour income registered a solid 5.5% gain. Real personal disposable income rose 4.8% while real personal disposable income per capita advanced 3.8%. The personal savings rate increased to 1.5% from 0.8% in the first quarter.

Residential investment growth strong

Low interest rates continued to support the housing market. Residential investment increased a solid 5.8% in the second quarter, down from 12.0% in the first. House resales and real estate transfer costs jumped, but growth in new construction activity slowed to 4.6% from 12.9% in the previous quarter, as housing starts showed only a modest increase in the second quarter from already high levels. Renovations showed little gain following a spike up in the first quarter.

Business fixed investment rises

Business spending on plant and equipment rose for the sixth consecutive quarter, growing 4.1% in the second quarter. Investment in machinery and equipment rose 4.5%, less than half the pace in the first quarter. Spending soared on other transportation equipment and increased for computers and office furniture, but it declined for agricultural and industrial machinery, motor vehicles, software, and telecommunications equipment.

Non-residential construction rose 3.4% after a drop of 2.3% in the first quarter. Spending on engineering projects increased for a sixth consecutive quarter, but expenditures on building construction, such as office towers and shopping malls, fell for a third consecutive quarter.

Business inventories little changed

Businesses held their inventories almost unchanged in the second quarter following an inventory investment of $1.0 billion in the first quarter. An accumulation of farm inventories offset depletions by manufacturers, retailers and wholesalers.

Current account surplus widens

In the second quarter, the current account registered a 20th consecutive surplus, in contrast with deficits throughout most of the 1980s and 1990s. The surplus rose $8.7 billion to $41.7 billion or 3.2% of nominal GDP (Chart 2). The goods trade surplus improved $14.3 billion as higher export prices (Chart 3), especially for primary products, added to the positive impact of real trade movements. A $5.8-billion deterioration in the investment income deficit partly offset that gain, as stronger profits earned by foreign direct investors in Canada boosted dividends and retained earnings assigned to non-residents.

Chart 2
Current account as a percentage of nominal GDP

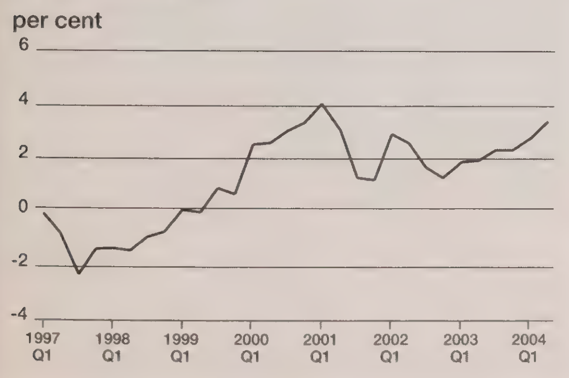
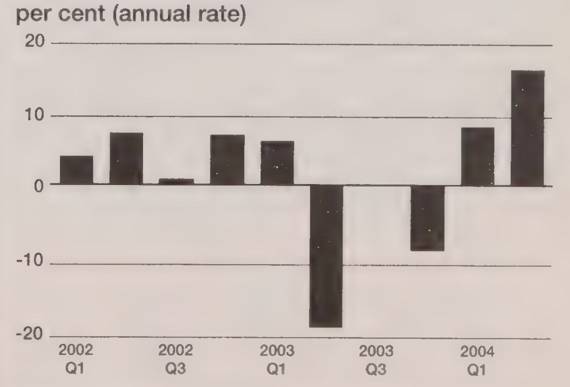


Chart 3
Change in export prices



Corporate profits jump

Corporate profits rose 28.6% in the second quarter, following a 35.8% jump in the first quarter. Manufacturers, oil and gas producers and retailers all made noticeable gains. Four consecutive double-digit increases have raised corporate profits as a share of GDP to 13.8%, well above the 10.1% historical average (Chart 4).

Consumer price inflation remains low

The GDP deflator, a comprehensive measure of domestic prices, increased 5.7% in the second quarter following a 4.5% increase in the first, as rising commodity prices boosted export prices (Chart 3). The GDP deflator stood 3.5% higher than a year earlier.

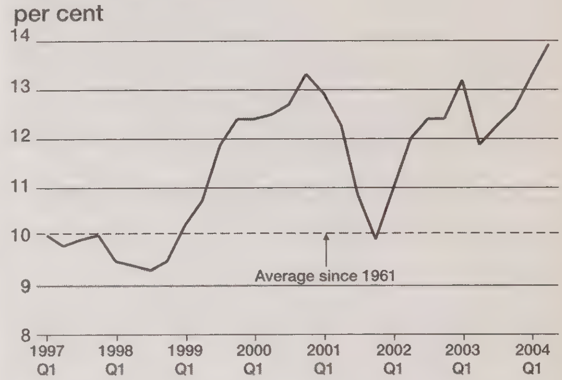
Year-over-year consumer price inflation dipped to 2.3% in July from 2.5% in June as the pace of increase in energy prices slowed in July. Nonetheless, higher energy prices have boosted CPI inflation above the 2% target, the mid-point of the official 1% to 3% band, and well above the recent low of 0.7% in February and March. However, at 1.9% in July, core CPI inflation, which excludes the eight most volatile items, sat just below the target level.

Employment grows in second quarter

Employment grew 2.0% in the second quarter. In the first eight months of 2004 the Canadian economy created 112,500 net new jobs. The participation rate sat at 67.4% in August, the same as in July and below its record high of 67.7% set in December 2003. The unemployment rate remained at 7.2%, the same rate as in July and May, when it hit its lowest level since July 2001.

Hourly labour productivity jumped a robust 2.9%, as output increased more than hours worked. Labour costs per unit of output rose 1.2% to stand 1.2% higher than a year earlier.

Chart 4
Profits before taxes as a share of nominal GDP



Bank of Canada raises its policy rate

On September 8, the Bank of Canada raised its key policy rate—the target for the overnight rate—by one-quarter of one percentage point to 2.25 per cent. As background for this decision, the Bank stated that it expects "aggregate demand to grow at, or marginally above, the rate of growth of production capacity. With the economy operating close to its capacity, monetary stimulus needs to be reduced to avoid a buildup of inflationary pressures."

With the U.S. Federal Reserve having raised its target rate 25 basis points on August 10, the gap between Canadian and U.S. short-term interest rates narrowed to under 70 from over 90 basis points in May. Long rates have fallen in the United States over the last three months, widening the gap in the two countries.

The Canadian dollar closed at 77.45 cents U.S. on September 10, off the 78.67 cents U.S. level of January 9, which represented its highest closing value in over 10 years.

The main source of data used in this publication is Statistics Canada. Subscription inquiries should be directed to the Distribution Centre at (613) 995-2855. For other inquiries about this publication, contact Steven James at (613) 992-4321. Also available on the Internet at www.fin.gc.ca
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THE ECONOMY IN BRIEF

DEPARTMENT OF FINANCE DECEMBER 2004

OVERVIEW

- In the third quarter of 2004 real gross domestic product (GDP) grew a solid 3.2%, following a 3.9% increase in the second quarter.
- Final domestic demand growth rose to 3.3% in the third quarter from 2.1% in the second. Stronger growth in consumer spending and business investment in machinery and equipment led the way. Business inventory investment surged $16.9 billion, up sharply from $2.3 billion in the second quarter.
- Part of the increased demand was met through a 13.0% jump in real imports. Real exports fell 2.0% after an 18.0% surge in the second quarter.
- The current account registered its 21st consecutive quarterly surplus despite a drop of $7.2 billion to $37.6 billion or 2.9% of nominal GDP.
- The Canadian economy created nearly 195,000 net new jobs in the first 11 months of 2004. The unemployment rate increased to 7.3% in November from 7.1% in September and October.

Real GDP growth at 3.2%

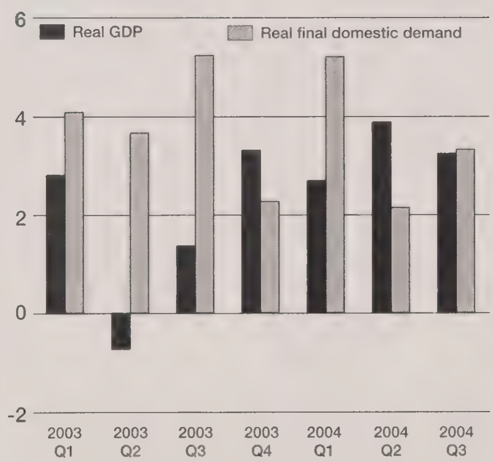
Real GDP rose 3.2% in the third quarter following a 3.9% gain in the second quarter. Domestic demand grew 3.3%, up from 2.1% in the previous quarter (Chart 1).

Consumer spending growth rises

Real consumer expenditure grew 3.0% in the third quarter, up from 2.1% in the second. Spending growth was strong for durables—mainly for furniture and appliances, given a strong housing market—and for semi-durables such as clothing and footwear. Services spending saw slightly lower growth than in the second quarter.

Note: Unless otherwise noted, data and per cent changes are quoted at annual rates. The cut-off date for data is noon, December 7, 2004.

Chart 1
Growth in real GDP and real final domestic demand
per cent (annual rate)



Main economic indicators
(per cent change at annual rates unless otherwise indicated)

	2002	2003	2004:Q1	2004:Q2	2004:Q3	Most recent	
Real gross domestic product	3.4	2.0	2.7	3.9	3.2		–
Final domestic demand	3.1	3.6	5.2	2.1	3.3		–
Government expenditure							–
Goods and services	2.8	3.8	2.8	1.2	4.0		–
Gross fixed capital	9.1	6.8	5.3	-5.8	-2.4		–
Consumer expenditure	3.4	3.1	6.0	2.1	3.0		–
Residential investment	14.5	7.5	9.0	6.3	3.3		–
Business fixed investment	-4.0	3.2	3.5	3.7	5.2		–
Non-residential construction	-8.3	1.0	-3.5	0.9	0.6		–
Machinery and equipment	-1.2	4.5	8.2	5.5	8.2		–
Business inventory investment ($ billion)	2.1	11.9	3.5	2.3	16.9		–
Exports	1.1	-2.4	4.0	18.0	-2.0		–
Imports	1.4	3.8	3.0	11.8	13.0		–
Current account balance							
(nominal $ billion)	22.7	23.8	32.6	44.7	37.6		–
(percentage of GDP)	2.0	2.0	2.6	3.5	2.9		–
Nominal personal income	2.7	3.0	5.4	4.9	3.5		–
Nominal personal disposable income	3.8	3.0	5.5	5.0	2.0		–
Real personal disposable income	1.7	1.4	3.0	1.8	1.2		–
Profits before taxes	8.6	10.0	34.4	33.0	8.5		–
Costs and prices (%, y/y)							
GDP price deflator	1.0	3.2	1.7	3.6	3.9		–
Consumer price index	2.2	2.8	0.9	2.2	2.0	2.3	Oct-2004
CPI excluding eight most volatile items	2.4	2.2	1.3	1.7	1.7	1.4	Oct-2004
Unit labour costs	0.5	1.5	1.4	1.4	1.2		
Wage settlements (total)	2.8	2.5	2.8	1.3	1.3	1.5	Sep-2004
Labour market							
Unemployment rate (%)	7.7	7.6	7.4	7.2	7.1	7.3	Nov-2004
Employment growth	2.2	2.2	1.1	2.0	1.3	0.3	Nov-2004
Financial markets (average)							
Exchange rate (cents U.S.)	63.7	71.6	75.9	73.6	76.5	83.28	6-Dec-04
Prime interest rate (%)	4.2	4.7	4.2	3.8	3.8	4.25	6-Dec-04

Note: Real values are in chained 1997 dollars.
Sources: Statistics Canada, the Bank of Canada and Human Resources and Skills Development Canada.

Personal income registered a healthy 3.5% gain in the third quarter following a 4.9% increase in the second. Labour income growth eased as employment and compensation per employee both increased more modestly than in the second quarter. Real personal disposable income growth moderated for the third consecutive quarter, rising 1.2%, while real personal disposable income per capita inched up 0.1%. For the first time, consumers did not save out of their disposable income after saving only 0.5% of it in the second quarter.

Residential investment growth slows

Low interest rates continued to support housing activity. Residential investment increased 3.3% in the third quarter, down from 6.3% in the second and 9.0% in the first, the slowest growth rate since the second quarter of 2003. A slight increase in housing starts in the quarter supported modestly higher growth in new construction activity of 4.7% after a second-quarter gain of 3.9%. Renovations rose 12.3% following growth of 2.1% in the second quarter. House resales, however, fell in the third quarter, dropping

real estate transfer costs 15.6% from their second-quarter level and moderating growth in residential investment.

Business fixed investment strengthens

Business spending on plant and equipment grew 5.2% in the third quarter, the seventh consecutive increase. Investment in machinery and equipment increased 8.2%, up from the second-quarter pace (Chart 2). Spending soared on industrial machinery and information and communications technology equipment, especially computers and software, but dropped on non-automotive transportation equipment.

Non-residential construction inched higher for the second consecutive quarter, rising 0.6% after a gain of 0.9% in the second quarter. Increased spending on engineering projects was largely offset by reduced expenditures on building construction, such as office towers and shopping malls.

Business inventories build up

Businesses increased inventories by $16.9 billion in the third quarter following an inventory investment of $2.3 billion in the second quarter. The buildup was widespread across manufacturers, retailers and wholesalers, with much of it related to weak sales and exports of motor vehicles and increased production and imports. Nonetheless, the inventory-to-sales ratio remained near historical lows.

Exports fall

Following an 18.0% surge in the second quarter, real exports dipped 2.0% in the third as international demand weakened, with notable drops in energy and automotive products. Exports of forestry products and machinery and equipment showed modest and no growth respectively following huge gains in both categories in the second quarter. Exports of services declined as exports of commercial services dropped 10.2%, a fifth consecutive quarterly decline.

Imports jump

Real imports jumped 13.0%. Imports grew strongly in all major categories, except energy and agricultural and fishing products. Imports of automotive products jumped 33.5%, the strongest increase since the second quarter of 2001. Reflecting strong investment growth, machinery and equipment imports increased 17.0%, the third consecutive double-digit gain.

Current account surplus narrows

In the third quarter, the current account registered its 21st consecutive surplus, in contrast with deficits throughout most of the 1980s and 1990s. The surplus, however, fell to $37.6 billion, or 2.9% of nominal GDP, from $44.7 billion in the previous quarter (Chart 3). The goods trade surplus dropped $7.2 billion as higher export prices and lower

Chart 2
Growth in real machinery and equipment investment

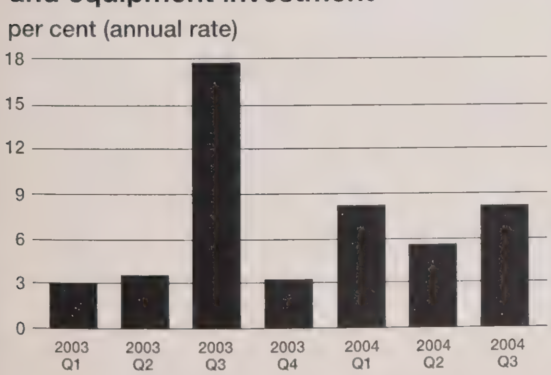
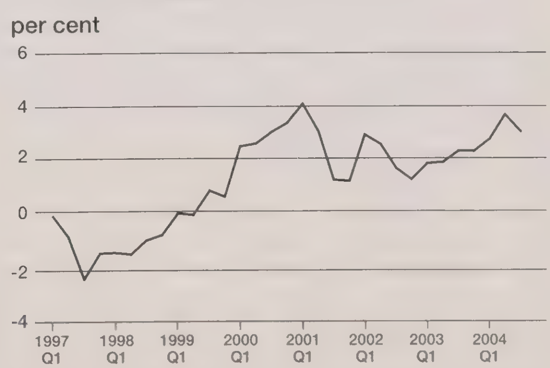


Chart 3
Current account as a percentage of nominal GDP

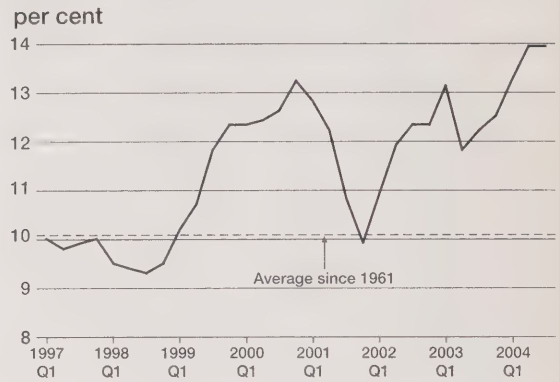


import prices moderated the negative impact of real trade movements. A deterioration in the investment income balance also contributed to the weaker current account, as dividends and retained earnings from direct investment abroad shrank more than dividends and retained earnings paid to non-residents.

Corporate profits continue to grow

Corporate profits rose 8.5% in the third quarter following four consecutive double-digit gains. Corporate profits as a share of GDP remained at 13.9%, well above the 10.1% historical average (Chart 4). Mining and oil and gas industries' profits rose with higher prices for their products. Manufacturers' profits, however, were restrained by weak exports.

Chart 4
Profits before taxes as a share of nominal GDP



Consumer price inflation remains low

The increase in the GDP deflator, a comprehensive measure of domestic prices, slowed to 3.7% in the third quarter from a 5.9% rise in the second to stand 3.9% higher than a year earlier.

Year-over-year consumer price inflation stood at 2.3% in October, up from 1.8% in September as food and energy prices rose. However, at 1.4% in October, core CPI inflation, which excludes the eight most volatile items, sat below the 2% mid-point of the 1% to 3% target band.

Employment grows

Employment grew 1.3% in the third quarter. In the first 11 months of 2004 the Canadian economy created nearly 195,000 net new jobs. The participation rate sat at 67.5% in November, up from October but still below its record high of 67.7% set in December 2003. The unemployment rate increased to 7.3% in November from 7.1% in September and October, when it hit its lowest level since mid-2001.

Hourly labour productivity dropped 4.6% in the third quarter, as strong growth in hours worked surpassed the gain in output. Labour costs per unit of output rose 0.4% to stand 1.2% higher than a year earlier.

Bank of Canada holds policy rate steady

The Canadian dollar climbed to its highest value in nearly 13 years, closing at 85.04 cents U.S. on November 26 before easing back to 83.28 cents U.S. on December 6. On December 7, the Bank of Canada maintained its key policy rate—the target for the overnight rate—at 2.50 per cent. This followed 25-basis-point increases in both September and October. The Bank stated that "if exchange rates were to persist at current levels, and if all other economic and financial factors were to remain unchanged, there would be a dampening effect on aggregate demand."

With the U.S. Federal Reserve having raised its target rate 25 basis points in each of August, September and November, the gap between Canadian and U.S. short-term interest rates has narrowed to under 30 basis points from over 80 basis points in October.

The main source of data used in this publication is Statistics Canada. Subscription inquiries should be directed to the Distribution Centre at (613) 995-2855. For other inquiries about this publication, contact Steven James at (613) 992-4321. Also available on the Internet at www.fin.gc.ca
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THE ECONOMY IN BRIEF

DEPARTMENT OF FINANCE MARCH 2005

OVERVIEW

- In the fourth quarter of 2004 real gross domestic product (GDP) grew 1.7%, following a 2.9% increase in the third quarter. For 2004 as a whole, real GDP rose 2.8%.
- Final domestic demand remained strong, rising 4.4% following gains of 3.5% in the third quarter and 2.4% in the second. Stronger consumer spending and business investment in machinery and equipment led the way. In addition, business inventory accumulation increased to $22.4 billion from $18.3 billion in the third quarter and $1.8 billion in the second.
- Much of the increased domestic demand, including inventory investment, was met through an 8.4% jump in real imports. Real exports fell 3.5% following a 3.4% decline in the third quarter.
- The current account registered its 22nd consecutive quarterly surplus despite a drop of $8.2 billion to $25.2 billion, or 1.9% of nominal GDP. For 2004 as a whole, the current account surplus reached a record $33.8 billion, $10 billion higher than in 2003.
- The Canadian economy created over 226,000 net new jobs during 2004, but lost 6,000 in January 2005. The unemployment rate was 7.0% in January, the same as in December.

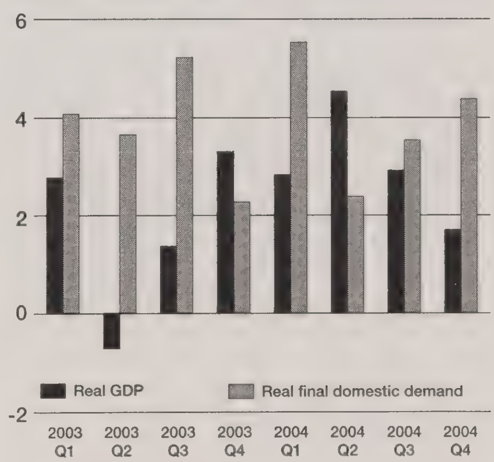
Real GDP grows 1.7%

Real GDP rose 1.7% in the fourth quarter following a 2.9% gain in the third. Final domestic demand grew 4.4%, up from 3.5% in the previous quarter (Chart 1).

Consumer spending growth rises

Real consumer expenditure grew 4.1% in the fourth quarter, up from 3.6% in the third quarter and 1.9% in the second. Spending growth was solid for durables and for non-durables such as food. Services spending grew more strongly than in the third quarter.

Chart 1
Growth in real GDP and real final domestic demand
per cent (annual rate)



Note: Unless otherwise noted, data and per cent changes are quoted at annual rates. The cut-off date for data is end of day, March 1, 2005.

Main economic indicators
(per cent change at annual rates unless otherwise indicated)

	2003	2004	2004:Q2	2004:Q3	2004:Q4	Most recent	
Real gross domestic product	2.0	2.8	4.5	2.9	1.7		–
Final domestic demand	3.6	3.8	2.4	3.5	4.4		–
Government expenditure							–
Goods and services	3.8	2.5	1.9	1.5	2.2		–
Gross fixed capital	6.8	1.9	-5.7	-1.7	0.9		–
Consumer expenditure	3.1	3.5	1.9	3.6	4.1		–
Residential investment	7.5	8.4	6.9	5.1	7.0		–
Business fixed investment	3.2	6.1	5.3	7.0	9.3		–
Non-residential construction	1.0	1.0	2.5	3.7	1.7		–
Machinery and equipment	4.5	9.4	7.1	9.1	14.4		–
Business inventory investment ($ billion)	11.9	11.7	1.8	18.3	22.4		–
Exports	-2.4	4.9	17.9	-3.4	-3.5		–
Imports	3.8	8.2	9.6	14.2	8.4		–
Current account balance							
(nominal $ billion)	23.8	33.8	44.1	33.4	25.2		–
(percentage of GDP)	2.0	2.6	3.4	2.6	1.9		–
Nominal personal income	3.0	4.1	5.3	3.6	4.1		–
Nominal personal disposable income	3.0	3.9	5.6	2.6	4.4		–
Real personal disposable income	1.4	2.4	2.4	1.5	3.0		–
Profits before taxes	10.0	17.7	36.6	6.2	6.0		–
Costs and prices (%, y/y)							
GDP price deflator	3.2	3.2	3.4	3.8	4.2		–
Consumer price index	2.8	1.9	2.2	2.0	2.3	2.0	Jan-2005
CPI excluding eight most volatile items	2.2	1.5	1.7	1.7	1.6	1.6	Jan-2005
Unit labour costs	1.6	1.5	1.4	1.3	1.7		
Wage settlements (total)	2.5	1.7	1.3	1.4	2.2	2.5	Dec-2004
Labour market							
Unemployment rate (%)	7.6	7.2	7.2	7.1	7.1	7.0	Jan-2005
Employment growth	2.3	1.8	2.4	1.3	1.7	-0.4	Jan-2005
Financial markets (average)							
Exchange rate (cents U.S.)	71.6	77.0	73.6	76.5	81.9	80.60	1-Mar-05
Prime interest rate (%)	4.7	4.0	3.8	3.8	4.3	4.25	1-Mar-05

Note: Real values are in chained 1997 dollars.
Sources: Statistics Canada, the Bank of Canada and Human Resources and Skills Development Canada.

Personal income registered a healthy 4.1% gain in the fourth quarter following a 3.6% increase in the third. Labour income increased with compensation per hour worked. Real personal disposable income rose 3.0%, double the third-quarter pace. Real personal disposable income per capita increased 1.8%. After saving 0.3% of disposable income in the third quarter, consumers spent virtually all of their disposable income in the fourth quarter.

Residential investment growth continues

Low interest rates continued to support housing activity. Residential investment increased 7.0% in the fourth quarter. Continued robust housing starts supported a 7.7% gain in new construction activity after a third-quarter rise of 7.2%. Renovations rose 15.0% following growth of 12.8% in the third quarter. House resales, however, fell in the fourth quarter as in the third, lowering real estate transfer costs by 11.5% and moderating growth in residential investment.

Business fixed investment strengthens

Business spending on plant and equipment grew 9.3% in the fourth quarter, the eighth consecutive increase. Investment in machinery and equipment jumped 14.4%, up from 9.1% in the third quarter and 7.1% in the second (Chart 2). Spending soared in the two largest categories: investment in computers and other office equipment climbed 39.2% while that on industrial machinery rose 19.2%. Investment in automobiles and non-automotive transportation equipment declined.

Non-residential construction increased 1.7% after a third-quarter 3.7% gain. As in the second and third quarters, reduced spending on building construction, such as office towers and shopping malls, partly offset increased spending on engineering projects.

Business inventories build up

Businesses increased inventories by $22.4 billion in the fourth quarter following an increase of $18.3 billion in the third quarter. The fourth-quarter buildup was concentrated in manufacturing and wholesale industries, especially for durable goods. The inventory-to-sales ratio remained well below its historical average.

Exports fall

Exports declined 3.5% in the fourth quarter, the second consecutive drop of over 3% and the sixth decrease in the last nine quarters. Within goods exports, declines were widespread, with the exceptions of industrial and automotive products. Exports of services rose 3.2%, as exports of commercial services rebounded from five consecutive quarterly declines.

Imports climb

Real imports registered a fifth consecutive increase and the seventh in the last eight quarters, climbing 8.4% with gains in all major categories except automotive products. Reflecting growth in investment, machinery and equipment imports increased 12.9%, the fourth consecutive double-digit increase, and reflecting consumer spending growth, imports of non-automotive consumer goods recorded a second consecutive double-digit gain. Imports of services increased 14.9% as spending on foreign travel soared 36.2%.

Current account surplus narrows

In the fourth quarter, the current account registered its 22nd consecutive surplus, in contrast with deficits throughout most of the 1980s and 1990s. The surplus, however, fell to $25.2 billion, or 1.9% of nominal GDP, from $33.4 billion in the previous quarter (Chart 3). With real imports rising and real exports falling, the goods trade surplus dropped $4.3 billion despite a larger decline in import than export prices. A decline in investment income receipts, concentrated in lower retained earnings from direct investment abroad, yielded a $2.9-billion deterioration in the investment income balance

Chart 2
Growth in real machinery and equipment investment

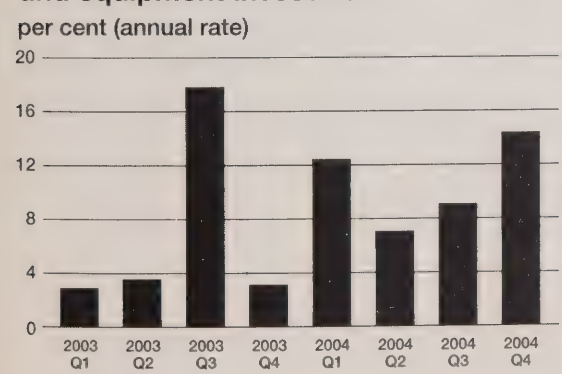
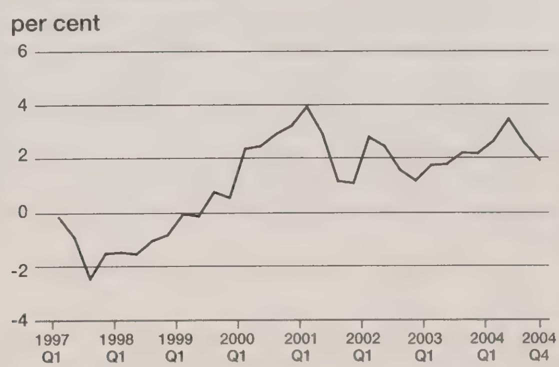


Chart 3
Current account as a percentage of nominal GDP



and contributed to the weaker current account surplus. For the year as a whole, the current account registered a surplus of $33.8 billion or 2.6% of nominal GDP, up $10 billion from 2003.

Corporate profits continue to grow

Corporate profits rose 6.0% in the fourth quarter, similar to the third quarter's 6.2% increase that followed four consecutive double-digit gains. Corporate profits as a share of GDP have climbed to 14.0%, well above the 10.1% historical average (Chart 4). The transportation industry's profits rose sharply, but weaker exports and the strong dollar restricted manufacturers' gains. The wood, paper and chemical industries showed increases, but the motor vehicle, primary metals, and petroleum and coal industries saw earnings weaken.

Consumer price inflation remains low

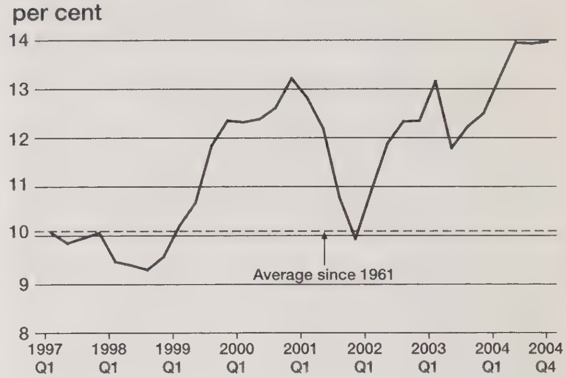
The increase in the GDP deflator, a comprehensive measure of domestic prices, slowed to 3.2% in the fourth quarter from 3.9% in the third to stand 4.2% higher than a year earlier.

Year-over-year consumer price inflation stood at 2.0% in January, down from 2.1% in December, as the pace of the rise in food and energy prices slowed. And at 1.6% in January, core CPI inflation, which excludes the eight most volatile items, sat below the 2% mid-point of the 1% to 3% target band.

Employment growth pauses in January

Employment grew 1.7% in the fourth quarter. During 2004 the Canadian economy created over 226,000 net new jobs, all of them full-time. However, employment dipped 6,000 in January 2005. The participation rate sat at 67.4% in January, down from December and from its record high of 67.7% first set in late 2003 and matched several times since. The unemployment rate remained at 7.0%, its lowest level since mid-2001.

Chart 4
Profits before taxes as a share of nominal GDP



Hourly labour productivity rebounded 3.7% following a third-quarter drop, as output rose despite fewer hours worked. Labour costs per unit of output rose 2.5% to stand 1.7% higher than a year earlier.

Bank of Canada holds policy rate steady

On March 1, as in December and January, the Bank of Canada maintained its key policy rate—the target for the overnight rate—at 2.50 per cent. The Bank stated that since January's announcement, "the outlook for the Canadian economy and inflation...are essentially unchanged."

With the U.S. Federal Reserve having raised its target rate 25 basis points five times from August 2004 to February 2005, U.S. short-term interest rates are now higher than those in Canada.

Since closing at 85.04 cents U.S. on November 26, 2004, its highest value in nearly 13 years, the Canadian dollar has eased back to close at 80.60 cents U.S. on March 1, 2005.

The main source of data used in this publication is Statistics Canada. Subscription inquiries should be directed to the Distribution Centre at (613) 995-2855. For other inquiries about this publication, contact Steven James at (613) 992-4321. Also available on the Internet at www.fin.gc.ca
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THE ECONOMY IN BRIEF

DEPARTMENT OF FINANCE JUNE 2005

OVERVIEW

- In the first quarter of 2005 real gross domestic product (GDP) grew 2.3% following a 2.1% increase in the fourth quarter of 2004.
- Final domestic demand remained strong, rising 5.8% following a gain of 4.3% in the fourth quarter of 2004. Stronger consumer spending and business investment in plant and equipment led the way. However, businesses accumulated $15.8 billion in inventories, a decrease from the $22.6-billion inventory investment in the fourth quarter.
- Increased domestic demand was partly met through a 10.6% jump in real imports. Real exports rose 5.9% following declines in the previous two quarters.
- The current account registered its 23rd consecutive quarterly surplus despite a drop of $5.1 billion to $16.0 billion or 1.2% of nominal GDP.
- Since the end of 2003 the Canadian economy has created over 280,000 net new jobs, all of them full-time. The unemployment rate dipped to 6.8% in April, near its lowest level in the period since 1976.

Real GDP grows 2.3%

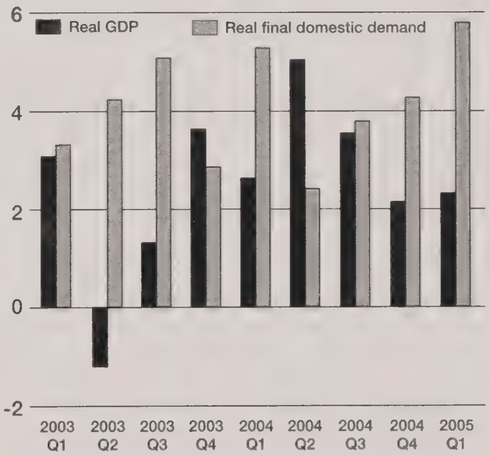
Real GDP rose 2.3% in the first quarter following a 2.1% gain in the fourth. Final domestic demand grew a robust 5.8%, up from 4.3% in the previous quarter (Chart 1).

Consumer spending growth rises

Real consumer expenditure grew 6.3% in the first quarter, up from the fourth-quarter pace of 3.8%. Consumption of durables, non-durables, semi-durables and services all showed stronger growth than in the previous quarter. Spending was particularly robust on furniture and appliances.

Note: Unless otherwise noted, data and per cent changes are quoted at annual rates. The cut-off date for data is end of day, May 31, 2005.

Chart 1
Growth in real GDP and real final domestic demand
per cent (annual rate)



Main economic indicators
(per cent change at annual rates unless otherwise indicated)

	2003	2004	2004:Q3	2004:Q4	2005:Q1	Most recent	
Real gross domestic product	2.0	2.9	3.5	2.1	2.3	–	
Final domestic demand	3.6	3.9	3.8	4.3	5.8	–	
Government expenditure						–	
Goods and services	2.9	2.7	2.0	2.1	3.2	–	
Gross fixed capital	4.5	4.9	-0.3	3.6	5.0	–	
Consumer expenditure	3.1	3.4	3.5	3.8	6.3	–	
Residential investment	6.2	8.3	7.1	5.2	-1.7	–	
Business fixed investment	6.1	6.1	7.4	9.9	12.7	–	
Non-residential construction	5.7	0.8	1.7	0.9	7.5	–	
Machinery and equipment	6.4	9.8	11.4	16.5	16.3	–	
Business inventory investment ($ billion)	11.1	11.5	17.3	22.6	15.8	–	
Exports	-2.1	5.0	-2.8	-3.1	5.9	–	
Imports	4.1	8.1	12.4	8.3	10.6	–	
Current account balance							
(nominal $ billion)	18.4	28.8	28.7	21.1	16.0	–	
(percentage of GDP)	1.5	2.2	2.2	1.6	1.2	–	
Nominal personal income	3.4	4.3	3.8	4.5	2.6	–	
Nominal personal disposable income	3.7	3.9	2.2	3.5	1.2	–	
Real personal disposable income	2.1	2.5	1.4	2.1	-0.3	–	
Profits before taxes	8.7	18.7	3.7	6.1	15.6	–	
Costs and prices (%, y/y)							
GDP price deflator	3.3	3.0	3.4	3.5	2.9	–	
Consumer price index	2.8	1.9	2.0	2.3	2.1	2.4	Apr-2005
CPI excluding eight most volatile items	2.2	1.5	1.7	1.6	1.8	1.7	Apr-2005
Unit labour costs	2.2	1.6	1.3	1.3	1.1		
Wage settlements (total)	2.6	1.7	1.4	2.1	2.5	2.6	Mar-2005
Labour market							
Unemployment rate (%)	7.6	7.2	7.1	7.1	7.0	6.8	Apr-2005
Employment growth	2.3	1.8	1.3	1.7	0.6	2.2	Apr-2005
Financial markets (average)							
Exchange rate (cents U.S.)	71.6	77.0	76.5	81.9	81.5	79.61	31-May-05
Prime interest rate (%)	4.7	4.0	3.8	4.3	4.3	4.25	31-May-05

Note: Real values are in chained 1997 dollars.
Sources: Statistics Canada, the Bank of Canada and Human Resources and Skills Development Canada.

Personal income registered a 2.6% gain in the first quarter following a 4.5% increase in the fourth. Labour income increased 3.7%, down from 4.4% in the previous quarter. Real personal disposable income dipped 0.3% following five consecutive gains. Per capita real personal disposable income decreased 0.8%, but stood 1.0% above its level of a year earlier. After saving 1.0% of disposable income in the fourth quarter, consumers spent more than their disposable income in the first quarter, the first time the savings rate has been negative.

Residential investment eases back

Residential investment decreased 1.7% in the first quarter. While low interest rates continued to support housing activity at a high level, housing starts dipped, lowering new construction activity by 6.3% after a fourth-quarter rise of 6.4%. Renovations rose 1.8% following two consecutive quarters of double-digit increases. Housing resale activity produced a 7.2% gain in real estate transfer costs following a 17.9% drop in the fourth quarter.

Business fixed investment strengthens

Business spending on plant and equipment grew 12.7% in the first quarter, the ninth consecutive increase. Investment in machinery and equipment jumped 16.3%, the third consecutive double-digit gain (Chart 2). Investment spending on computers and other office equipment soared 51.3% while it jumped nearly 35% in non-automotive transportation equipment. Investment in industrial machinery and motor vehicles also increased sharply.

Non-residential construction increased 7.5% after a weak fourth-quarter gain. Unlike the five previous quarters, both building construction, such as office towers and shopping malls, and engineering projects contributed positively to growth.

Business inventory accumulation slows

Businesses increased inventories by $15.8 billion in the first quarter following an accumulation of $22.6 billion in the fourth quarter. The first-quarter slowdown was concentrated in wholesale industries, especially in durable goods such as motor vehicles. The inventory-to-sales ratio remained well below its historical average.

Exports rise

Real exports increased 5.9% in the first quarter following declines in the previous two quarters. Within goods, gains were most notable in energy products and machinery and equipment, especially information and communications technology equipment given strong U.S. growth in investment in telecommunications equipment, computers and software. Automotive exports declined as vehicle sales, especially those of light trucks, plunged in the United States. Increased prices for gasoline have harmed SUV sales. Exports of services rose 5.5%.

Imports outgrow exports

Real imports registered a sixth consecutive gain, climbing 10.6%. The increase was broadly based. Investment growth boosted machinery and equipment imports by 11.1%, the sixth consecutive double-digit increase. Imports of automotive products rose with domestic vehicle sales, but at a more muted 4.6% as declining automotive exports negatively affected imported inputs. Other consumer goods imports actually declined. Imports of services increased 7.9% as spending on foreign travel climbed 17.8%.

Current account surplus narrows

In the first quarter, the current account registered its 23rd consecutive surplus, in contrast with deficits throughout most of the 1980s and 1990s. The surplus, however, fell to $16.0 billion or 1.2% of nominal GDP from $21.1 billion in the previous quarter (Chart 3). With real imports rising more than real exports and export prices declining, the goods trade surplus dropped $5.0 billion. Increased spending on foreign travel worsened the trade surplus by another $1 billion.

Chart 2
Growth in real machinery and equipment investment

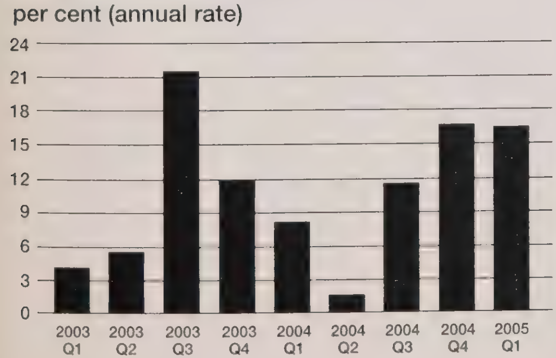
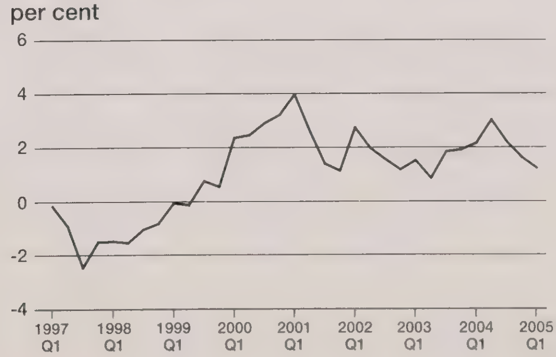


Chart 3
Current account as a percentage of nominal GDP

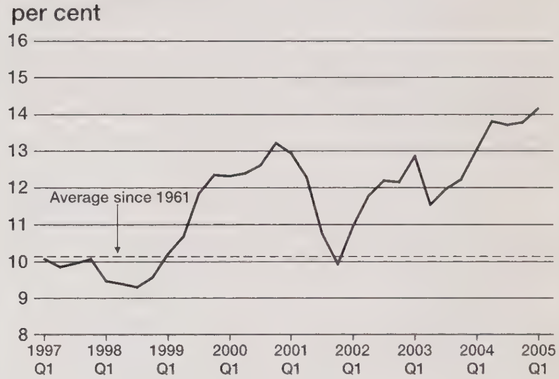


A sharp drop in dividend payments to non-residents, however, contributed to a $1.6-billion improvement in the investment income deficit, moderating the deterioration in the current account surplus.

Corporate profits grow more quickly

Corporate profits rose 15.6% in the first quarter, more than double the fourth-quarter pace of 6.1%. A strong upward trend in profits has raised their share of GDP to a record 14.1%, well above the 10.1% historical average since 1961 (Chart 4). Among non-financial enterprises, oil and gas producers and other mining companies reported strong gains, benefiting from high commodity prices. Among financial enterprises, chartered banks' profits increased sharply.

Chart 4
Profits before taxes as a share of nominal GDP



Consumer price inflation remains low

The GDP deflator, a comprehensive measure of prices, rose 1.5% in the first quarter, somewhat slower than in the previous quarter, to stand at a level 2.9% higher than a year earlier.

Year-over-year consumer price inflation stood at 2.4% in April, up from 2.3% in March as prices for gasoline, fuel oil and vegetables increased. At 1.7% in April, core CPI inflation, which excludes the eight most volatile items, sat below the 2% mid-point of the 1% to 3% target band.

Unemployment rate approaches its low

Employment grew 0.6% in the first quarter, and another 29,000 jobs were added in April. Since the end of 2003 the Canadian economy has created 280,900 net new jobs, all of them full-time. The participation rate sat at 67.2% in April, down from March and from its record high of 67.7% first set in late 2003 and matched several times since. The unemployment rate dipped to 6.8%, slightly above the low in mid-2000 and early 1976.

Hourly labour productivity growth slowed to 1.1% from over 4% in the fourth quarter. Labour costs per unit of output rose a little over 1% in the first quarter to stand a little over 1% higher than a year earlier.

Bank of Canada holds policy rate steady

On May 25, as in April, March, January and December, the Bank of Canada maintained its key policy rate—the target for the overnight rate—at 2.50 per cent. The Bank stated that "the Canadian economy is expected to move back to its production capacity in the second half of 2006, with core inflation projected to return to 2 per cent around the end of next year."

With the U.S. Federal Reserve having raised its target rate 25 basis points seven times from August 2004 to May 2005, U.S. interest rates are higher at all maturities up to 10 years than those in Canada.

Since closing at 85.04 cents U.S. on November 26, 2004, its highest value in nearly 13 years, the Canadian dollar has eased back to close at 79.61 cents U.S. on May 31, 2005.

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THE ECONOMY IN BRIEF

DEPARTMENT OF FINANCE SEPTEMBER 2005

OVERVIEW

- In the second quarter of 2005 real gross domestic product (GDP) grew 3.2%, following a 2.1% increase in the first quarter.
- Final domestic demand remained solid, rising 2.9% following a gain of 6.2% in the first quarter. Residential investment rebounded from a first-quarter decline.
- Increased domestic demand was met through domestic production as real imports fell 3.5% after an 11.0% jump in the first quarter. Real exports rose 0.8% following a 5.5% gain in the first quarter.
- The current account registered its 24th consecutive quarterly surplus. It widened by over $5 billion to $18.7 billion or 1.4% of nominal GDP.
- Since the end of 2004 the Canadian economy has created over 137,000 net new jobs, all of them full-time. The unemployment rate remained at 6.8% in August, near its lowest level since 1976.

Real GDP grows 3.2%

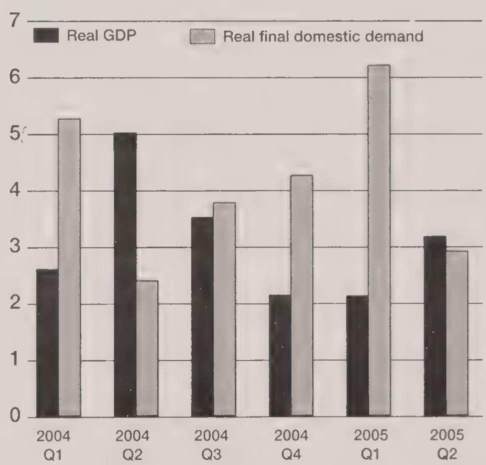
Real GDP rose 3.2% in the second quarter. Final domestic demand growth remained solid and was met by increased domestic output as real imports fell (Chart 1).

Consumer spending growth eases

Real consumer expenditure grew 2.4% in the second quarter, down from the first-quarter pace of 6.7%. Consumption of durables, semi-durables and services all showed slower growth than in the previous quarter while spending on non-durables declined.

Note: Unless otherwise noted, data and per cent changes are quoted at annual rates. The cut-off date for data is end of day, September 9, 2005.

Chart 1
Growth in real GDP and real final domestic demand
per cent (annual rate)



Main economic indicators
(per cent change at annual rates unless otherwise indicated)

	2003	2004	2004:Q4	2005:Q1	2005:Q2		Most recent
Real gross domestic product	2.0	2.9	2.1	2.1	3.2		–
Final domestic demand	3.6	3.9	4.3	6.2	2.9		–
Government expenditure							–
Goods and services	2.9	2.7	2.1	3.6	3.1		–
Gross fixed capital	4.5	4.9	3.6	6.4	-1.7		–
Consumer expenditure	3.1	3.4	3.8	6.7	2.4		–
Residential investment	6.2	8.3	5.2	-1.5	7.9		–
Business fixed investment	6.1	6.1	9.9	13.5	3.5		–
Non-residential construction	5.7	0.8	0.9	13.1	4.1		–
Machinery and equipment	6.4	9.8	16.5	13.7	3.2		–
Business inventory investment ($ billion)	11.1	11.5	22.6	15.3	11.3		–
Exports	-2.1	5.0	-3.1	5.5	0.8		–
Imports	4.1	8.1	8.3	11.0	-3.5		–
Current account balance							
(nominal $ billion)	18.4	28.8	21.1	13.5	18.7		–
(percentage of GDP)	1.5	2.2	1.6	1.0	1.4		–
Nominal personal income	3.4	4.3	4.5	3.6	6.0		–
Nominal personal disposable income	3.7	3.9	3.5	2.2	4.3		–
Real personal disposable income	2.1	2.5	2.1	1.0	2.3		–
Profits before taxes	8.7	18.7	6.1	7.0	9.5		–
Costs and prices (%, y/y)							
GDP price deflator	3.3	3.0	3.5	2.9	2.2		–
Consumer Price Index	2.8	1.9	2.3	2.1	1.9	2.0	Jul-2005
CPI excluding eight most volatile items	2.2	1.5	1.6	1.8	1.6	1.4	Jul-2005
Unit labour costs	2.1	1.1	0.7	1.0	1.7		
Wage settlements (total)	2.6	1.8	2.2	2.6	2.6	2.7	Jun-2005
Labour market							
Unemployment rate (%)	7.6	7.2	7.1	7.0	6.8	6.8	Aug-2005
Employment growth	2.3	1.8	1.7	0.6	1.7	0.7	Aug-2005
Financial markets (average)							
Exchange rate (cents U.S.)	71.6	77.0	81.9	81.5	80.4	84.93	09-Sep-05
Prime interest rate (%)	4.7	4.0	4.3	4.3	4.3	4.50	09-Sep-05

Note: Real values are in chained 1997 dollars.
Sources: Statistics Canada, the Bank of Canada and Human Resources and Skills Development Canada.

Personal income registered a 6.0% gain in the second quarter following a 3.6% gain in the first. Labour income rose 6.2% as employment and average hours worked per employee increased faster than in the previous quarter. Real personal disposable income climbed for the seventh consecutive quarter, rising 2.3% following a 1.0% gain in the previous quarter. Real personal disposable income per capita increased 1.5% and stood more than 16% above its recent trough in the second quarter of 1996.

For the second consecutive quarter, consumers spent more than their disposable income.

Residential investment bounces back

Residential investment increased 7.9% in the second quarter after declining 1.5% in the first. Low interest rates continued to support housing activity as housing starts increased, edging up new construction activity by 0.5% after a first-quarter drop of 6.0%. Renovations climbed more quickly

than in the previous quarter. Housing resale activity produced a large gain in real estate transfer costs.

Business fixed investment rises

Supported by low interest rates and record profits, business spending on plant and equipment registered a 10th consecutive increase in the second quarter, growing 3.5% after a 13.5% first-quarter gain. Investment in machinery and equipment rose 3.2%, after a 13.7% jump in the previous quarter.

Non-residential construction increased 4.1% after a strong first-quarter gain. For the second consecutive quarter, both building construction, such as office towers and shopping malls, and engineering projects contributed to growth.

Business inventory accumulation slows

Businesses increased inventories by $11.3 billion in the second quarter, $3.9 billion less than in the first quarter. The slowdown in the second quarter was concentrated in manufacturing industries. The inventory-to-sales ratio remained low by historical standards.

Exports rise

Exports increased 0.8% in the second quarter, slowing from a 5.5% rise in the first (Chart 2). Within goods, strong U.S. growth in investment in computers and software helped boost machinery and equipment exports, especially information and communications technology equipment. This gain was largely offset by sharp declines in exports of automotive and energy products, with exports of cars plunging as increased sales in the United States were partly met by a reduction of inventories in that country. Exports of services increased 4.1%.

Imports decline

Real imports registered their first decline after six consecutive gains, dropping 3.5%. The decrease was broadly based, with energy and industrial products falling sharply. Imports of automotive products inched lower as imported parts, used in the production of vehicles, declined with falling automotive exports. Investment growth, however, boosted machinery and equipment imports by 7.0%, the ninth consecutive increase. Imports of services increased 2.5%.

Current account surplus widens

In the second quarter, the current account registered its 24th consecutive surplus, in contrast with deficits throughout most of the 1980s and 1990s. The surplus widened to $18.7 billion or 1.4% of nominal GDP from $13.5 billion in the previous quarter (Chart 3). With real exports rising and real imports falling, the nominal goods trade surplus grew by over $5 billion. However, a jump in dividend payments to non-residents contributed to a worsening in the investment income deficit, moderating the current account's improvement.

Chart 2
Growth in real machinery and equipment investment

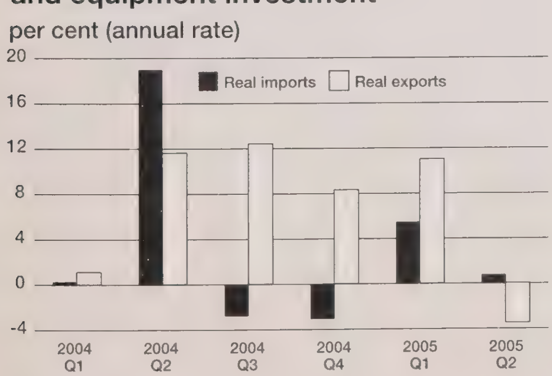
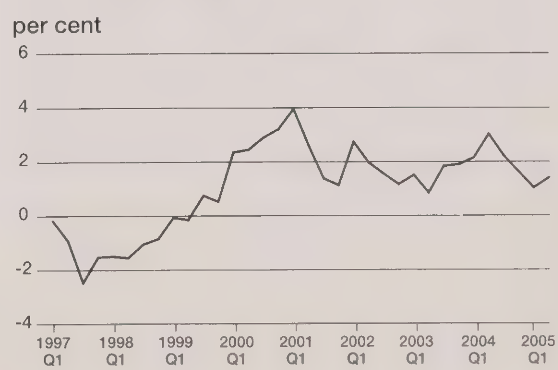


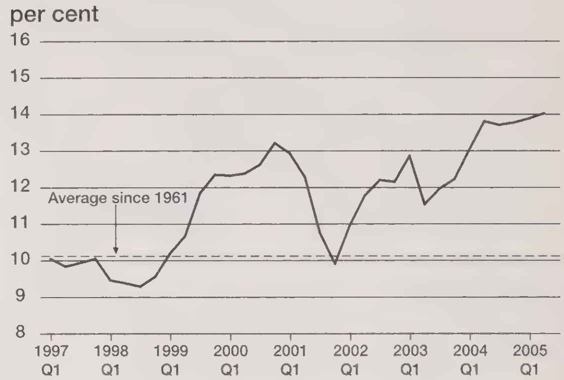
Chart 3
Current account as a percentage of nominal GDP



Corporate profits grow again

Corporate profits rose 9.5% in the second quarter, up from the 7.0% first-quarter pace. A strong upward trend in profits has raised their share of GDP to a record 14.0%, well above the 10.1% historical average since 1961 (Chart 4). Non-financial enterprises reported gains, with oil and gas producers and other mining companies benefiting from high commodity prices.

Chart 4
Profits before taxes as a share of nominal GDP



Consumer price inflation remains low

The GDP deflator, a comprehensive measure of prices, rose 2.0% in the second quarter to stand 2.2% higher than a year earlier.

Year-over-year consumer price inflation stood at 2.0% in July, up from 1.7% in June, as gasoline and natural gas prices rose. At 1.4% in July, core CPI inflation, which excludes the eight most volatile items, sat below the mid-point of the 1% to 3% target band.

Unemployment rate remains near its low

Employment grew 1.7% in the second quarter, and another 33,400 jobs were added in July and August. Since the end of 2004 the Canadian economy has created 137,600 net new jobs, all of them full-time. The participation rate sat at 67.2% in August, the same as in June and July, but down slightly from May and from its record high of 67.7% first set in late 2003 and matched several times since. As in July, the unemployment rate sat at 6.8% in August, up from 6.7% in June, when it matched the low of early 1976.

Hourly labour productivity remained unchanged in the second quarter from its first-quarter value as growth in hours worked matched that in output. This followed a 0.7% rise in output per hour worked in the first quarter and a 2.5% jump in the fourth quarter of 2004. Labour costs per unit of output rose 2.9% in the second quarter to stand 1.7% higher than a year earlier.

Bank of Canada raises policy rate

On September 7, the Bank of Canada raised its key policy rate—the target for the overnight rate—by one quarter of a percentage point to 2.75 per cent, the first increase since October 2004. The Bank stated that with "the economy operating close to full capacity" the "interest rate increase will help to promote a balance between aggregate demand and supply in the economy and keep inflation on target over the medium term."

The U.S. Federal Reserve has raised its target rate 10 times from 1.00% in June 2004 to 3.50% in August 2005. U.S. interest rates at all maturities are higher than those in Canada.

The Canadian dollar eased from a nearly 13-year high of 85.04 cents U.S. on November 26, 2004, to close as low as 78.77 cents U.S. on May 16, 2005, but has rebounded along with rising commodity prices. The dollar closed at 84.93 cents U.S. on September 9, 2005.

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THE ECONOMY IN BRIEF

DEPARTMENT OF FINANCE CANADA — MARCH 2006

OVERVIEW

- In the fourth quarter of 2005 real gross domestic product (GDP) grew 2.5%, following a 3.5% gain in the third quarter. For 2005 as a whole, GDP increased 2.9%, the same rate as in 2004.
- Final domestic demand climbed 4.3% in the fourth quarter, reflecting healthy employment, income and profit growth. Non-residential investment in plant and equipment led the way.
- Net trade retarded growth. Real imports climbed 11.4%, satisfying increased domestic demand, notably the need for machinery and equipment. Real exports rose a solid but more modest 9.6%.
- With its 26th consecutive quarterly surplus, the current account balance jumped $22.1 billion to a record level of $53.1 billion, or 3.8% of nominal GDP. For 2005 as a whole, the current account surplus stood at a record level of $30.2 billion, or 2.2% of nominal GDP, the same share as in 2004.
- Since the end of 2004 the Canadian economy has created 305,700 net new jobs, close to 90 per cent of which are full-time. The 6.4% unemployment rate in February matched the lowest level in over 30 years.

Real GDP grows 2.5%

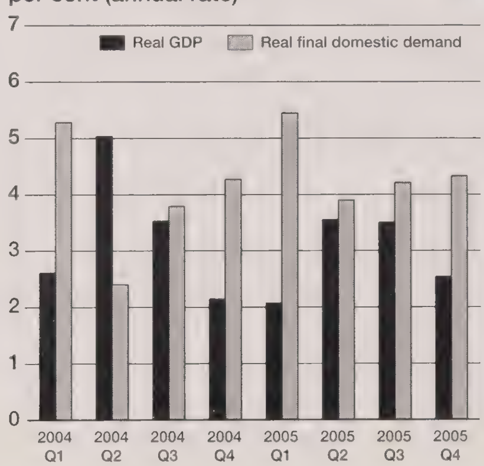
Real GDP rose 2.5% in the fourth quarter. Final domestic demand growth remained solid (Chart 1), but imports increased more than exports, moderating output growth.

Consumer spending growth picks up

Real consumer spending grew 2.9% in the fourth quarter, a modestly stronger pace than in the third quarter. Spending on non-durables, semi-durables and services grew faster than in the third quarter while purchases of durables actually declined as sales of motor vehicles and automotive parts dropped sharply.

Note: Unless otherwise noted, data and per cent changes are quoted at annual rates. The cut-off date for data is end of day, March 10, 2006.

Chart 1
Growth in real GDP and real final domestic demand
per cent (annual rate)



Main economic indicators
(per cent change at annual rates unless otherwise indicated)

	2004	2005	2005:Q2	2005:Q3	2005:Q4	Most recent	
Real gross domestic product	2.9	2.9	3.6	3.5	2.5		–
Final domestic demand	3.9	4.3	3.9	4.2	4.3		–
Government expenditure							–
Goods and services	2.7	2.8	3.2	4.4	3.6		–
Gross fixed capital	4.9	4.2	1.8	5.0	11.1		–
Consumer expenditure	3.4	4.0	3.8	2.4	2.9		–
Residential investment	8.3	3.3	6.7	2.5	1.4		–
Business fixed investment	6.1	9.1	4.4	13.8	12.9		–
Non-residential construction	0.8	6.8	6.5	11.7	12.3		–
Machinery and equipment	9.8	10.7	2.9	15.3	13.3		–
Business inventory investment ($ billion)	11.5	14.3	12.9	14.4	11.9		–
Exports	5.0	2.3	-0.5	7.4	9.6		–
Imports	8.1	7.0	-3.2	10.2	11.4		–
Current account balance							
(nominal $ billion)	28.8	30.2	20.2	31.0	53.1		–
(percentage of GDP)	2.2	2.2	1.5	2.2	3.8		–
Nominal personal income	4.3	4.9	6.2	6.3	5.8		–
Nominal personal disposable income	3.9	4.0	4.9	7.0	5.3		–
Real personal disposable income	2.5	2.4	2.8	4.5	5.0		–
Profits before taxes	18.7	10.7	12.3	20.0	16.4		–
Costs and prices (%, y/y)							
GDP price deflator	3.0	3.1	2.3	3.1	4.1		–
Consumer Price Index	1.9	2.2	1.9	2.6	2.3	2.8	Jan-2006
CPI excluding eight most volatile items	1.5	1.6	1.6	1.6	1.6	1.7	Jan-2006
Unit labour costs	1.1	2.3	1.9	2.7	3.4		
Wage settlements (total)	1.7	2.3	2.6	2.8	1.7	1.7	Dec-2005
Labour market							
Unemployment rate (%)	7.2	6.8	6.8	6.8	6.5	6.4	Feb-2006
Employment growth	1.8	1.4	1.7	1.5	2.4	1.5	Feb-2006
Financial markets (average)							
Exchange rate (cents U.S.)	77.0	82.6	80.4	83.3	85.2	86.10	10-Mar-06
Prime interest rate (%)	4.0	4.4	4.3	4.3	4.8	5.50	09-Mar-06

Note: Real values are in chained 1997 dollars.
Sources: Statistics Canada, the Bank of Canada and Human Resources and Social Development.

The 5.8% increase in personal income in the fourth quarter followed a 6.3% gain in the third. While employment rose more than in the third quarter, average hours worked per employee inched lower. Real personal disposable income climbed for the ninth consecutive quarter, up 5.0%. Per capita real personal disposable income increased 3.6%. The personal savings rate was 0.3% in the fourth quarter, the only quarter in 2005 in which consumers spent less than their disposable income.

Residential investment increases

Residential investment increased 1.4% in the fourth quarter after gaining 2.5% in the third. Rising interest rates likely slowed the housing market, but low rates still supported a high level of activity. While renovations jumped 11.2%, a dip in housing starts fostered a modest decrease in new construction activity, the fourth consecutive quarterly decline. Housing resale activity dropped.

Business fixed investment climbs

Supported by record profits, high capacity utilization, and lower import prices due to the appreciating dollar, business spending on plant and equipment registered a 12th consecutive increase in the fourth quarter, growing 12.9%. Investment in machinery and equipment jumped 13.3%. Except for motor vehicles, all types of investment showed significant gains, with spending on other transportation equipment soaring in the quarter.

Non-residential construction increased a robust 12.3% after a slightly smaller third-quarter gain. For the fourth consecutive quarter, both building construction, such as office towers and shopping malls, and engineering projects contributed to growth. Higher energy prices have boosted investment in the oil and gas extraction industry, increasing engineering projects.

Business inventory accumulation slows

Businesses increased inventories by $11.9 billion, down from $14.4 billion in the third quarter. The slowdown was concentrated in durable goods and wholesale trade industries. The inventory-to-sales ratio edged lower.

Exports rise

Real exports increased 9.6% in the fourth quarter (Chart 2). As in the third quarter, exports of cars jumped as strong U.S. sales in the second and third quarters reduced U.S. inventories. Exports of machinery and equipment and forest products both rebounded from previous declines. Machinery and equipment exports have benefited from strong U.S. machinery and equipment investment since 2003. Exports of forest products rose with U.S. residential investment plus demand from rebuilding projects in the U.S. following Hurricane Katrina. Exports of services increased 2.9%.

Imports increase more than exports

Real imports rose 11.4%, the second consecutive double-digit increase. Most major categories saw solid gains. Boosted by robust investment growth, imported machinery and equipment climbed 19.2%, an 11th consecutive increase. Non-automotive consumer products also registered a second consecutive double-digit increase. Imported services increased 3.9%.

Current account surplus mounts to record

In the fourth quarter, the terms of trade rose. Export prices jumped with the price of exported energy products while import prices fell, in part because of an appreciating dollar. Thus, despite the negative contribution of real trade, the nominal trade surplus soared $16.0 billion. Further, increased dividends from abroad received by Canadians and decreased income paid to non-residents from Canadian profits improved the investment income deficit by

Chart 2
Growth in real exports and real imports
per cent (annual rate)

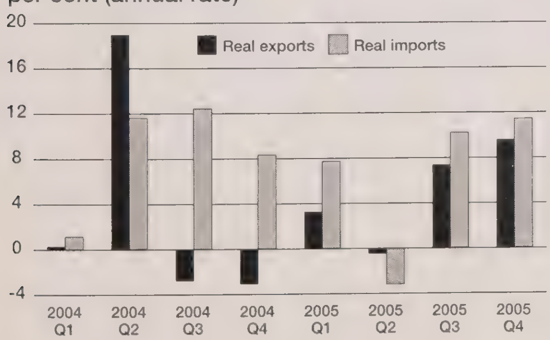
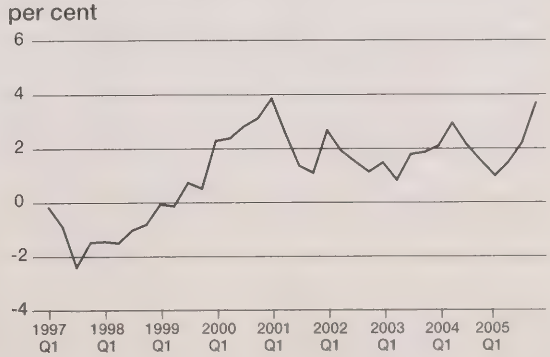


Chart 3
Current account as a percentage of nominal GDP
per cent

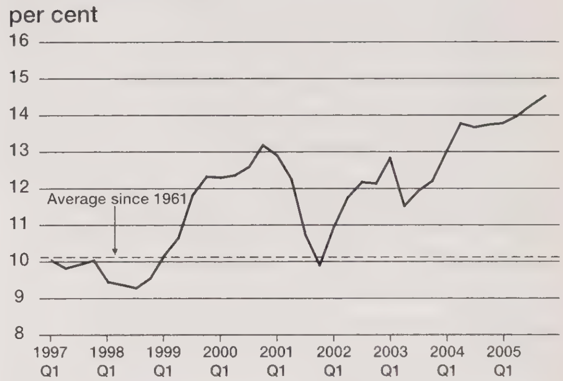


$6.6 billion. The current account surplus climbed $22.1 billion to a record level of $53.1 billion and at 3.8% sat a fraction below its record share of nominal GDP (Chart 3). For 2005 as a whole, the current account surplus stood at a record level of $30.2 billion, or 2.2% of nominal GDP.

Corporate profits grow again

Corporate profits rose 16.4% in the fourth quarter following a 20.0% third-quarter gain. A strong upward trend in profits has raised their share of GDP to a record 14.6%, well above the 10.2% historical average since 1961 (Chart 4). Financial enterprises reported significant gains and mining companies other than those involved in oil and gas extraction benefited from rising metal prices.

Chart 4
Profits before taxes as a share of nominal GDP



Consumer price inflation remains subdued

Reflecting higher world commodity prices, the GDP deflator, a comprehensive measure of prices, rose over 5% in the fourth quarter to stand 4.1% higher than a year earlier.

Year-over-year consumer price inflation stood at 2.8% in January, up from 2.2% in December, as prices for gasoline, natural gas and fresh vegetables rose. At 1.7% in January, core CPI inflation, which excludes the eight most volatile items, sat below the mid-point of the 1% to 3% target band.

Unemployment rate remains near low

Employment grew 2.4% in the fourth quarter, and another 51,000 jobs were added in January and February. Since the end of 2004 the Canadian economy has created 305,700 net new jobs, the majority of them full-time. The participation rate stood at 67.0% in February, down slightly from January and from its record high of 67.7% set in the second quarter of 2004.

The unemployment rate declined 0.2 percentage points in February and sat at 6.4%, matching the lowest level in over 30 years last reached in November 2005.

Hourly labour productivity increased 0.7% in the fourth quarter and was 1.3% higher than a year earlier. Labour costs per unit of output rose 4.8% in the fourth quarter to stand 3.4% higher than a year earlier.

Bank of Canada raises policy rate

On March 7, the Bank of Canada raised its key policy rate—the target for the overnight rate—by one quarter of a percentage point to 3.75 per cent, the fifth increase in a six-month period. The Bank stated that "some modest further increase in the policy interest rate may be required to keep aggregate supply and demand in balance and inflation on target over the medium term." The U.S. Federal Reserve raised its target rate 14 times from 1.25% in June 2004 to 4.50% in January 2006. U.S. interest rates are higher than rates in Canada at all maturities.

The Canadian dollar climbed to close at a 14-year high of 88.39 cents U.S. on March 2. It then eased to 86.10 cents U.S. on March 10.

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THE ECONOMY IN BRIEF

DEPARTMENT OF FINANCE JUNE 2006

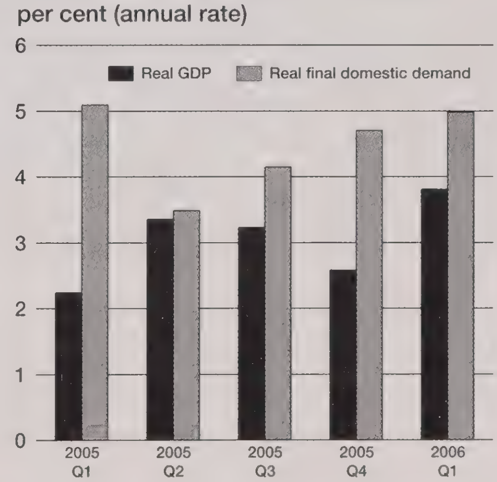
OVERVIEW

- In the first quarter of 2006 real gross domestic product (GDP) grew 3.8%, following a 2.6% gain in the fourth quarter of 2005.
- Real final domestic demand, reflecting healthy employment and income growth, climbed 5.0% and boosted the need for increased domestic production. Residential investment and household spending on durables led the way. Net international trade made almost no contribution to output growth. Real exports dipped 0.9% while real imports fell 1.6%.
- The current account surplus dropped $9.5 billion from a record $52.1 billion in the fourth quarter of 2005. At 3.0% of nominal GDP, this was the 27th consecutive quarterly surplus.
- Since the end of 2005 the economy has created 220,200 net new jobs, almost all of them full-time. At 6.1% in May, the unemployment rate hit its lowest level in over 30 years.

Real GDP grows 3.8%

Real GDP rose 3.8% in the first quarter of 2006, as final domestic demand growth remained solid (Chart 1).

Chart 1
Growth in real GDP and real final domestic demand



Consumer spending growth picks up

Real consumer expenditure grew 4.6% in the first quarter, a stronger pace than in the fourth quarter (Chart 2). Spending on durables, semi-durables and services rose while that on non-durables dipped. Sales of motor vehicles rebounded 6.7% following a sharp drop in the previous quarter. Spending on furniture and appliances rose sharply with a healthy housing market.

The 7.9% gain in personal income in the first quarter followed a 4.8% rise in the fourth. Wages and salaries increased 5.0%. While employment climbed more slowly than in the previous quarter, average hours worked per employee grew along

Note: Unless otherwise noted, data and per cent changes are quoted at annual rates. The cut-off date for data is noon, June 9, 2006.

Corporate profits slip but remain healthy

In the first quarter, corporate profits declined 15.3%. However, at 13.7%, profits as a share of GDP remained well above the 10.2% historical average (Chart 4). Lower commodity prices reduced profits in primary industries such as oil and gas extraction and metal mining. Petroleum and coal manufacturers' profits dropped, as unusually warm weather weakened demand. Strong consumer spending, however, pushed up retailers' profits.

Consumer price inflation remains subdued

Reflecting lower energy prices, the GDP deflator, a comprehensive measure of prices, decreased 2.8% in the first quarter to stand 3.0% higher than a year earlier.

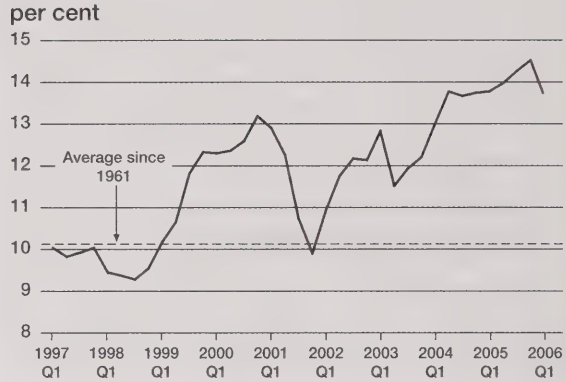
Thanks in part to higher gasoline prices, year-over-year consumer price inflation rose to 2.4% in April from 2.2% in March. At 1.6% in April, core CPI inflation, which excludes the eight most volatile items, remained below the mid-point of the 1% to 3% target band.

Unemployment rate declines in May

Employment grew 1.6% in the first quarter, and another 118,700 jobs were added in April and May. Since the end of 2005 the Canadian economy has created 220,200 net new jobs, almost all of them full-time. The participation rate stood at 67.3% in May, up from 67.1% last December, but below its record high of 67.7% set in the second quarter of 2004. The employment rate rose to an all-time high of 63.2% in May.

The unemployment rate dropped 0.3 percentage points in May and sat at 6.1%, its lowest level in over 30 years.

Chart 4
Profits before taxes as a share of nominal GDP



Hourly labour productivity increased 2.1% in the first quarter and was 1.8% higher than a year earlier. Labour costs per unit of output rose 0.7% in the first quarter to stand 2.5% higher than a year earlier.

Bank of Canada raises policy rate

On May 24, the Bank of Canada raised its key policy rate—the target for the overnight rate—by one quarter of a percentage point to 4.25 per cent, the seventh increase in nine months. The Bank stated that the target rate was now at a level that is expected to keep the Canadian economy on its projected path and to return inflation to the 2-per-cent target. The U.S. Federal Reserve raised its target 25 basis points to 5.00 per cent on May 10, the 16th increase since June 2004. U.S. rates at all maturities are higher than those in Canada.

The Canadian dollar climbed to close at a 28-year high of 90.95 U.S. cents on May 10, as commodity prices remained high. It then eased to 89.12 U.S. cents on June 8.

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THE ECONOMY IN BRIEF

DEPARTMENT OF FINANCE | SEPTEMBER 2006

OVERVIEW

- In the second quarter of 2006 real gross domestic product (GDP) grew 2.0%, following a 3.6% gain in the first quarter.
- Real final domestic demand climbed 4.0%, led by consumer spending and business non-residential investment. However, net exports subtracted from growth, as real exports dipped 1.2%, the second consecutive decline, while imports jumped 9.4%.
- The current account surplus dropped $15.9 billion from $32.7 billion in the first quarter. At 1.2% of nominal GDP, this was the 28th consecutive quarterly surplus.
- Employment grew 3.1%, even more sharply than the 1.6% pace in the first quarter. However, the unemployment rate edged up from 6.4% in July to 6.5 % in August.

Real GDP increases 2.0%

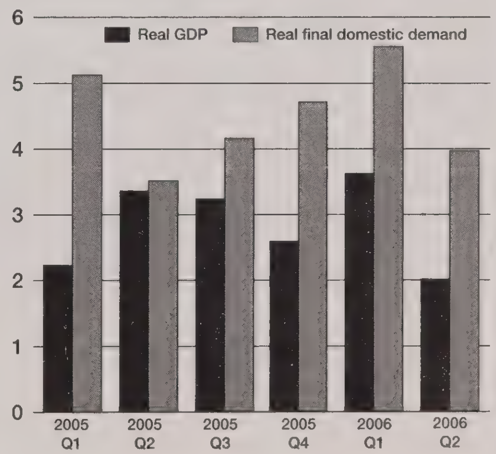
Real GDP rose 2.0% in the second quarter of 2006, as final domestic demand continued to grow at a solid pace, but external trade subtracted from growth (Chart 1).

Consumer spending remains healthy

Real consumer expenditure grew 4.2% in the second quarter following an increase of 5.1% in the first (Chart 2). Spending on durables, semi-durables, non-durables and services all rose. However, growth of spending on furniture and appliances slowed with a weaker housing market and sales of motor vehicles declined after a jump in the first quarter.

Personal income dipped in the second quarter after a 12.0% jump in the first, despite a solid rise in wages and salaries and stronger employment growth than in the previous quarter. In the first quarter, a large payment to an employer-sponsored

Chart 1
Growth in real GDP and real final domestic demand
per cent (annual rate)



Note: Unless otherwise noted, data and per cent changes are quoted at annual rates. The cut-off date for data is noon, September 13, 2006.

Main economic indicators
(per cent change at annual rates unless otherwise indicated)

	2004	2005	2005:Q4	2006:Q1	2006:Q2		Most recent
Real gross domestic product	3.3	2.9	2.6	3.6	2.0		–
Final domestic demand	4.2	4.3	4.7	5.5	4.0		–
Government expenditure							–
Goods and services	3.0	2.7	4.4	2.6	4.7		–
Gross fixed capital	3.3	6.8	13.4	5.4	3.7		–
Consumer expenditure	3.3	3.9	3.6	5.1	4.2		–
Residential investment	7.8	3.2	0.0	12.7	-5.2		–
Business fixed investment	9.1	9.4	11.4	8.5	7.3		–
Non-residential construction	7.4	7.9	12.0	8.2	5.5		–
Machinery and equipment	10.3	10.5	10.8	8.8	8.8		–
Business inventory investment ($ billion)	9.7	15.5	14.9	11.1	16.5		–
Exports	5.2	2.1	6.4	-3.8	-1.2		–
Imports	8.2	7.1	12.7	-1.9	9.4		–
Current account balance							
(nominal $ billion)	27.6	31.8	52.1	32.7	16.8		–
(percentage of GDP)	2.1	2.3	3.7	2.3	1.2		–
Nominal personal income	5.0	5.0	4.8	12.0	-1.5		–
Nominal personal disposable income	4.7	4.2	4.3	14.9	-2.4		–
Real personal disposable income	3.2	2.5	3.7	13.2	-4.1		–
Profits before taxes	18.3	10.6	23.6	-14.1	1.7		–
Costs and prices (%, y/y)							
GDP price deflator	3.0	3.2	4.1	3.7	2.8		–
Consumer Price Index (CPI)	1.9	2.2	2.3	2.4	2.6	2.4	July-2006
Core CPI[1]	1.6	1.6	1.6	1.7	1.8	2.0	July-2006
Unit labour costs	1.4	2.3	3.2	3.7	2.7		
Wage settlements (total)	1.8	2.3	1.7	2.2	2.7	2.5	Jun-2006
Labour market							
Unemployment rate (%)	7.2	6.8	6.5	6.4	6.2	6.5	Aug-2006
Employment growth	1.8	1.4	2.4	1.6	3.1	-1.2	Aug-2006
Financial markets (average)							
Exchange rate (U.S. cents)	77.0	82.6	85.2	86.6	89.1	89.33	12-Sep-06
Prime interest rate (%)	4.0	4.4	4.8	5.3	5.9	6.00	12-Sep-06

Note: Real values are in chained 1997 dollars.

[1] Core inflation excludes eight of the components of the CPI basket that display the greatest volatility, as well as the effect of changes in indirect taxes on the remaining components.

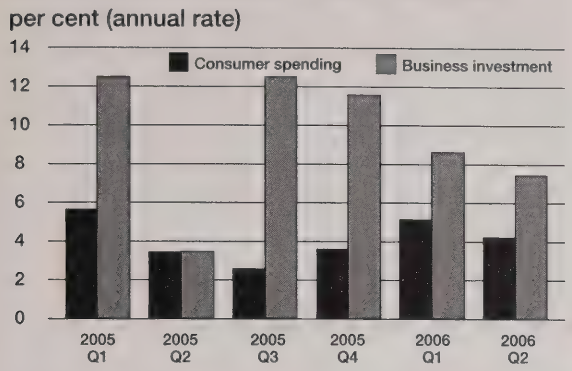
Sources: Statistics Canada, the Bank of Canada and Human Resources and Social Development Canada.

pension plan led to a large one-time increase in supplementary labour income, and three temporary programs swelled government transfers to persons. Returns to normal in these categories produced the second-quarter dip in personal income. Real personal disposable income therefore declined 4.1% in the second quarter after 15 consecutive increases. Per capita real personal disposable income fell 5.0%, but stood more than 21% above its recent trough in the second quarter of 1996. The personal savings rate was 1.0%, down from 3.0% in the first quarter.

Residential investment decreases

Residential investment decreased 5.2% in the second quarter following a 12.7% gain in the previous quarter. This first decline since the beginning of 2005 saw new construction activity drop 8.2% despite housing starts remaining above their average level in 2005. Warmer than usual weather had boosted starts in the first quarter to their highest level since 1987. House resales also fell, reducing agents' commissions and ownership transfer costs. Renovations increased 2.9%.

Chart 2
Growth in consumer spending and business non-residential investment



Business fixed investment climbs

Supported by healthy profitability, above average capacity utilization, and lower import prices due to the appreciating dollar, business spending on plant and equipment registered a 14th consecutive increase in the second quarter, up 7.3% (Chart 2). Non-residential construction grew 5.5% on the strength of a surge in engineering projects. Higher energy prices have boosted investment in oil and gas extraction. However, spending on building construction, such as office towers and shopping malls, weakened slightly.

Investment in machinery and equipment increased 8.8% for the second consecutive quarter. It climbed across the board with the exception of transportation equipment. Growth in spending on telecommunications equipment and computers was robust.

Business inventories build

Businesses added $16.5 billion to inventories, up from the $11.1-billion accumulation in the first quarter. Wholesale and manufacturing inventories increased, consistent with sagging foreign demand and a surge in imports. Retail inventories also increased, consistent with weaker motor vehicle sales. The overall inventory-to-sales ratio, however, remained low.

Exports dip again

Real exports decreased 1.2% in the quarter, the second consecutive decline (Chart 3). Exports of machinery and equipment, motor vehicles and forest products fell sharply. Weaker U.S. residential investment and business investment in machinery and equipment, in particular spending on motor vehicles, negatively affected Canada's exports in the quarter. However, energy exports jumped 25.2% and exports of services increased 6.3%.

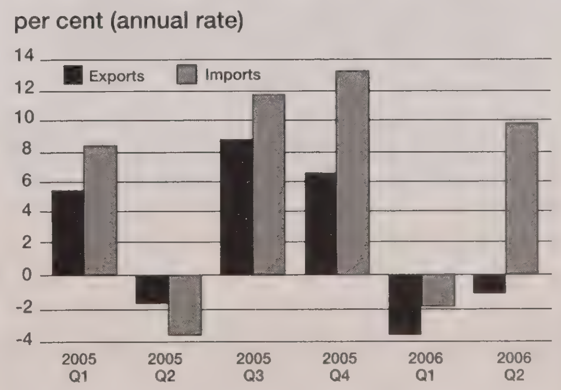
Imports increase

Real imports increased 9.4% after a 1.9% dip in the first quarter. This was the 11th gain since the end of 2002, when the Canadian dollar began to appreciate. A sharp rebound in energy imports dominated, but all major categories rose except agricultural and fish products. Machinery and equipment and consumer goods responded to increased business and household spending. Imports of services rose 10.2%.

Current account surplus shrinks

In the second quarter, the terms of trade fell as export prices declined more than import prices. The export price drop largely resulted from lower prices for commodity exports. Meanwhile, the price of energy imports rose. As a result, the nominal trade surplus dropped by $16.4 billion. The investment income deficit also worsened as profits Canadians earned on direct investments abroad weakened. The current account surplus shrank to $16.8 billion or 1.2% of GDP in the quarter.

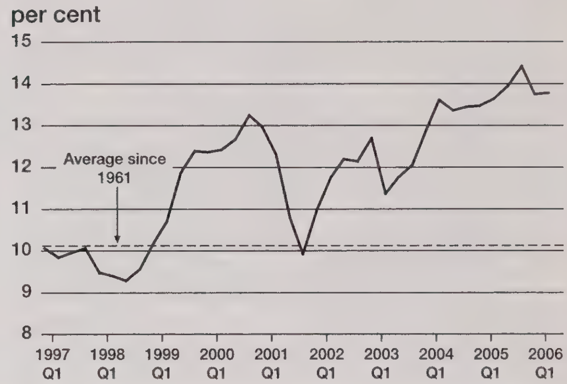
Chart 3
Growth in real exports and real imports



Healthy corporate profits continue

In the second quarter corporate profits edged up 1.7%, maintaining their 13.7% share of nominal GDP, well above the historical average of 10.2% (Chart 4). Higher metal prices boosted mining profits while retailers' profits benefited from continued growth in household spending. However, manufacturing profits slid with exports and chartered banks' profits dipped.

Chart 4
Profits before taxes as a share of nominal GDP



Consumer price inflation remains subdued

The GDP deflator, a comprehensive measure of prices, decreased 1.1% in the second quarter, reflecting the special pension contribution in the first quarter and lower energy prices in the second quarter.

Year-over-year consumer price inflation fell to 2.4% in July from 2.5% in June and 2.8% in May, owing in part to a cut to the goods and services tax. At 2.0% in July, core CPI inflation, which excludes the eight most volatile items and the effect of changes in indirect taxes, remained in the middle of the 1%–3% inflation target.

Low unemployment rate edges higher

Aided by a surge in May, employment grew a robust 3.1% in the second quarter, double the first-quarter pace. Following the May spike, employment eased in the following three months, with a loss of 26,100 jobs. As a result, since the end of 2005 the Canadian economy has created a healthy 194,100 net new jobs, all of them full-time. The participation rate stood at 67.2% in August, down from 67.3% in July.

After dropping to 6.1% in May and June, the lowest rate in over 30 years, the unemployment rate has edged higher. In August, it sat at 6.5%, up from 6.4% in July.

Hourly labour productivity decreased 1.0% in the second quarter, the first decline in two years. Productivity sat 1.2% higher than a year earlier. Affected by the special pension payment in the first quarter, labour costs per unit of output fell in the second quarter to sit 2.7% higher than a year earlier.

Bank of Canada holds policy rate steady

On September 6, the Bank of Canada held its key policy rate—the target for the overnight rate—unchanged at 4.25% for the second consecutive announcement after seven one-quarter-percentage-point increases over nine months. Expecting the Canadian economy to operate at about its production potential, the Bank stated the current level of the target rate "is judged at this time to be consistent with achieving the inflation target over the medium term." On August 8, the U.S. Federal Reserve held its policy rate unchanged at 5.25% after 17 increases that began in June 2004. U.S. rates at all maturities exceed those in Canada.

The Canadian dollar climbed to close at a 28-year high of 91.05 U.S. cents on June 12, as commodity prices remained high. It has since eased and closed at 89.33 U.S. cents on September 12.

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THE ECONOMY IN BRIEF

DEPARTMENT OF FINANCE JANUARY 2007

OVERVIEW

- In the third quarter of 2006 real gross domestic product (GDP) grew 1.7% following a 2.0% gain in the second quarter.
- Real final domestic demand growth slowed to 2.8% in the third quarter from 3.6% in the second quarter. Residential investment declined 8.2%. Growth in government spending on goods and services slowed, mainly reflecting a winding down of census-related expenditures. Also, business inventory accumulation weakened.
- Real exports increased after two consecutive quarterly declines while import growth slowed. As a result, international trade had only a marginally negative impact on growth. The current account surplus edged up $1.6 billion from $18.7 billion in the second quarter. At 1.4% of nominal GDP, this was the 29th consecutive quarterly surplus.
- Employment grew 0.4% in the third quarter, a much slower rate than the 3.1% pace in the second quarter. The unemployment rate inched up from 6.2% in October to 6.3% in November.

Real GDP increases 1.7%

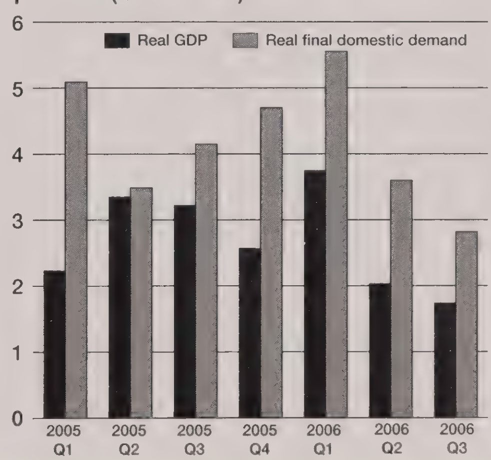
Real GDP rose 1.7% in the third quarter of 2006. Final domestic demand growth slowed, although it continued at a solid pace (Chart 1).

Consumer spending remains healthy

Real consumer expenditure grew 4.2% in the third quarter following an increase of 3.8% in the second and 4.8% in the first (Chart 2). Spending on durables, semi-durables, non-durables and services all rose. Notably, sales of motor vehicles rebounded after a drop in the previous quarter.

Personal income grew 5.3% in the third quarter. Labour income climbed 4.4% after a 1.1% increase in the second quarter, as stronger gains in wages and salaries per employee more than offset slower employment growth.

Chart 1
Growth in real GDP and real final domestic demand
per cent (annual rate)



Note: Unless otherwise noted, data and per cent changes are quoted at annual rates. The cut-off date for data is end of day, December 12, 2006.

Main economic indicators
(per cent change at annual rates unless otherwise indicated)

	2004	2005	2006:Q1	2006:Q2	2006:Q3	Most recent	
Real gross domestic product	3.3	2.9	3.8	2.0	1.7		–
Final domestic demand	4.2	4.3	5.6	3.6	2.8		–
Government expenditure							–
Goods and services	3.0	2.7	3.3	4.9	0.7		–
Gross fixed capital	3.3	6.8	6.7	3.4	0.5		–
Consumer expenditure	3.3	3.9	4.8	3.8	4.2		–
Residential investment	7.8	3.2	14.2	-4.8	-8.2		–
Business fixed investment	9.1	9.4	8.1	5.4	7.0		–
Non-residential construction	7.4	7.9	8.4	3.0	4.7		–
Machinery and equipment	10.3	10.5	7.9	7.4	8.9		–
Business inventory investment ($ billion)	9.7	15.5	11.5	18.6	15.3		–
Exports	5.2	2.1	-3.8	-1.7	3.6		–
Imports	8.2	7.1	-2.0	8.6	4.1		–
Current account balance							
(nominal $ billion)	27.6	31.8	42.1	18.7	20.3		–
(percentage of GDP)	2.1	2.3	2.9	1.3	1.4		–
Nominal personal income	5.0	5.0	11.7	-1.2	5.3		–
Nominal personal disposable income	4.7	4.2	14.6	-1.9	5.7		–
Real personal disposable income	3.2	2.5	12.8	-3.8	5.6		–
Profits before taxes	18.3	10.6	-13.3	2.6	11.2		–
Costs and prices (%, y/y)							
GDP price deflator	3.0	3.2	3.7	2.9	1.4		–
Consumer Price Index (CPI)	1.9	2.2	2.4	2.6	1.7	0.9	Oct-2006
Core CPI[1]	1.6	1.6	1.7	1.8	2.1	2.3	Oct-2006
Unit labour costs	1.7	2.3	2.8	2.1	1.6		
Wage settlements (total)	1.8	2.3	2.2	2.7	2.6	2.5	Sep-2006
Labour market							
Unemployment rate (%)	7.2	6.8	6.4	6.2	6.4	6.3	Nov-2006
Employment growth	1.8	1.4	1.6	3.1	0.4	1.6	Nov-2006
Financial markets (average)							
Exchange rate (U.S. cents)	77.0	82.6	86.6	89.1	89.2	86.81	12-Dec-06
Prime interest rate (%)	4.0	4.4	5.3	5.9	6.0	6.00	12-Dec-06

Note: Real values are in chained 1997 dollars.

[1] Core inflation excludes eight of the components of the CPI basket that display the greatest volatility, as well as the effect of changes in indirect taxes on the remaining components.

Sources: Statistics Canada, the Bank of Canada and Human Resources and Social Development Canada.

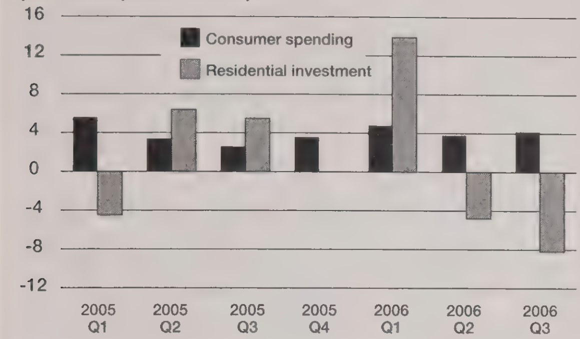
Real personal disposable income rose 5.6% and per capita real personal disposable income increased 4.3% to stand more than 22% above its trough in the second quarter of 1996. The personal savings rate was 1.5%, up from 1.2% in the second quarter.

Residential investment decreases

Residential investment fell 8.2% in the third quarter following a 4.8% decrease in the previous quarter (Chart 2). New construction activity weakened 12.5% as housing starts fell for a second consecutive quarter. House resales also declined, reducing agents' commissions and ownership transfer costs. Renovations increased 3.5%.

Chart 2
Growth in consumer spending and residential investment

per cent (annual rate)



Business investments in plant and equipment remain strong

Supported by healthy profitability, business spending on plant and equipment registered a 15th consecutive increase in the third quarter, up 7.0%. Non-residential construction grew 4.7% on the strength of a surge in engineering projects. However, spending on building construction, such as office towers and shopping malls, weakened for the second consecutive quarter.

Investment in machinery and equipment rose 8.9%, the 15th consecutive increase. Business capital spending on motor vehicles, computers, software and industrial equipment climbed while that on telecommunications equipment weakened.

Reduced business inventory buildup

Businesses added $15.3 billion to inventories in the third quarter, down from the $18.6-billion accumulation in the second quarter. Wholesale and retail inventories fell. Manufacturing inventories rose, as imports of motor vehicles outpaced domestic sales. Despite the smaller overall accumulation, the inventory-to-sales ratio increased to its highest level in over two years.

Exports climb after two declines

Real exports increased 3.6% in the third quarter following two consecutive declines (Chart 3). Exports of industrial goods and machinery and equipment jumped, reflecting solid U.S. business investment. However, exports of automotive products, cars, trucks and parts plunged, likely reflecting a drop in U.S. sales of North American-produced motor vehicles in the previous quarter. Exports of services fell 5.6%.

Imports increase more than exports

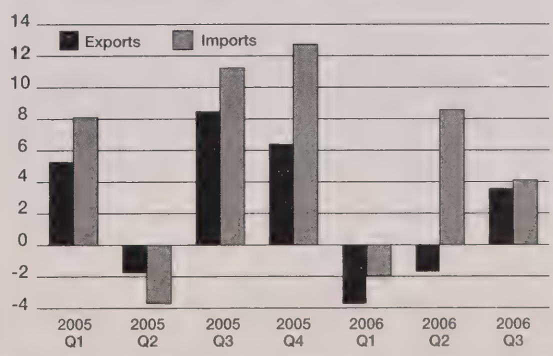
Real import growth slowed to 4.1% from 8.6% in the second quarter for a 12th increase since the end of 2002, when the Canadian dollar began to appreciate. Sharp gains in machinery and equipment and automotive products more than offset lower imports of industrial goods. Increased automotive imports reflected a double-digit gain in vehicle sales in Canada. Higher machinery and equipment imports were a response to greater business spending. Imports of services fell 5.4%.

Current account surplus edges higher

In the third quarter, a decline in the terms of trade reinforced the slight negative impact of real trade movements on the nominal trade surplus. Import prices rose more than export prices, as the price of imported energy products increased while that of exported energy decreased. The trade surplus fell $3.0 billion to $31.9 billion. However, the investment income deficit improved $4.4 billion, as profits Canadians earned on direct investments abroad rose. The current account surplus edged up by $1.6 billion to $20.3 billion or 1.4% of nominal GDP.

Chart 3
Growth in real exports and real imports

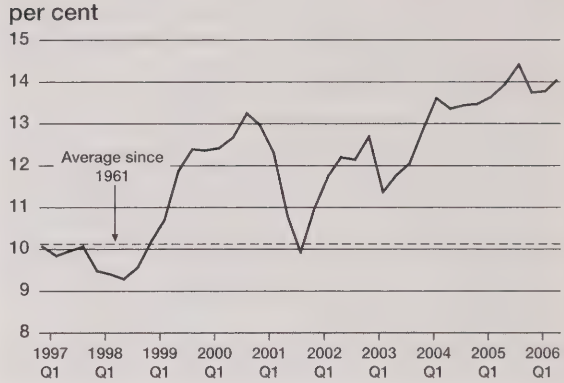
per cent (annual rate)



Healthy corporate profits continue

In the third quarter, corporate profits rose 11.2%, boosting their share of nominal GDP from 13.7% in the second quarter to 14.0% in the third, slightly below the historical high set at the end of 2005. The historical average is 10.2% (Chart 4). Rising metal prices boosted mining profits. High prices helped raise the profits of petroleum and coal manufacturers. The construction and banking industries also made solid gains.

Chart 4
Profits before taxes as a share of nominal GDP



Consumer price inflation remains subdued

The GDP deflator, a comprehensive measure of prices, rose 0.5% in the third quarter, up from a decline of 0.4% in the second, to stand 1.4% higher than a year earlier.

Year-over-year consumer price inflation fell to 0.9% in October from 2.8% in May, owing in part to the cut to the goods and services tax rate and a drop in energy prices. At 2.3% in October, core CPI inflation, which excludes the eight most volatile items and the effect of changes in indirect taxes, sat just above the 2% inflation target.

Low unemployment rate edges higher

Small net job losses in June, July and August restrained employment growth to 0.4% in the third quarter. However, solid job growth in October and November raised net job creation in Canada to a healthy 283,200 since the end of 2005. The participation rate stood at 67.2% in November, up from 67.1% in October.

After dropping to 6.1% in May and June, the lowest level in over 30 years, the unemployment rate has edged higher. In November, it sat at 6.3%, up from 6.2% in October, but down from 6.5% in August.

Hourly labour productivity for the total economy rebounded by 0.3% in the third quarter after a 0.3% decline in the second, which was the first decline in two years. Labour costs per unit of output rose in the third quarter to sit 1.6% higher than a year earlier.

Bank of Canada holds policy rate steady

On December 5, the Bank of Canada held its key policy rate—the target for the overnight rate—unchanged at 4.25% for the fourth consecutive announcement, after seven one-quarter-percentage-point increases over nine months through to May 2006. The Bank stated, "the current level of the target for the overnight rate is judged at this time to be consistent with achieving the inflation target over the medium term." On December 12, the U.S. Federal Reserve maintained a policy rate of 5.25% for the fourth consecutive Federal Open Market Committee decision. That followed 17 increases during a period of monetary tightening that the Federal Reserve had initiated in June 2004. U.S. rates at all maturities exceed those in Canada.

The Canadian dollar climbed to close at a 28-year-high of 91.05 U.S. cents on June 12, as commodity prices remained high. It has eased since and closed at 86.81 U.S. cents on December 12.

The main source of data used in this publication is Statistics Canada. Subscription inquiries should be directed to the Department of Finance Distribution Centre at 613-995-2855. For other inquiries about this publication, contact Steven James at 613-992-4321.
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THE ECONOMY IN BRIEF

DEPARTMENT OF FINANCE APRIL 2007

OVERVIEW

- In the fourth quarter of 2006 real gross domestic product (GDP) grew 1.4% following gains of 2% in each of the two previous quarters. For 2006 as a whole, real GDP increased 2.7%, down from 2.9% in 2005.
- Domestic demand growth slowed in the fourth quarter. Real final domestic demand grew 3.0%, down from 4.0% in the third quarter. Growth in consumer spending on goods and services and business spending on plant and equipment remained solid but slowed. Business inventory accumulation fell.
- Real exports rose while real imports edged lower, raising the nominal trade surplus. However, a sharp deterioration in the investment income deficit lowered the current account surplus to \$12.0 billion, or 0.8% of nominal GDP, from \$23.1 billion in the third quarter. For 2006 as a whole, the current account surplus stood at \$24.3 billion, or 1.7% of nominal GDP.
- Employment grew 2.4% in the fourth quarter, up from 0.6% growth in the third quarter. The unemployment rate in February 2007 was 6.1%, matching those in October and December 2006, the lowest level in 32 years.

Real GDP increases 1.4%

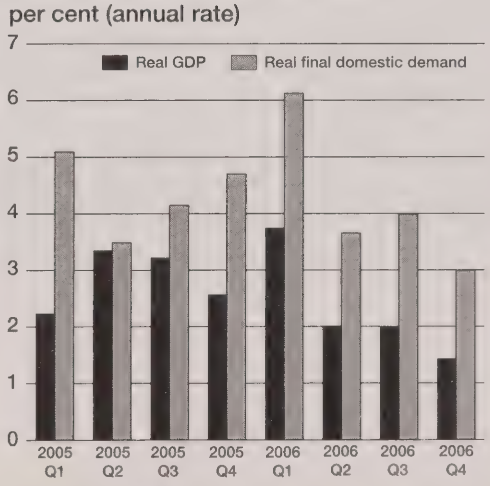
Real GDP rose 1.4% in the fourth quarter of 2006. Final domestic demand growth remained solid, but slowed relative to the third quarter (Chart 1).

Consumer spending remains healthy

Real consumer expenditure grew 3.1% in the fourth quarter following an increase of 5.1% in the third. Spending on durables, especially automotive products, and semi-durables grew more modestly than in the third quarter, and spending on non-durables declined.

Personal income increased 6.0% in the fourth quarter. Labour income grew 6.3% after a 4.6% gain in the third quarter, given stronger employment growth and higher wage rates. Real personal disposable income rose 4.2% and

Chart 1
Growth in real GDP and real final domestic demand



Note: Unless otherwise noted, data and per cent changes are quoted at annual rates. The cut-off date for data is end of day, March 22, 2007.

Main economic indicators
(per cent change at annual rates unless otherwise indicated)

	2005	2006	2006:Q2	2006:Q3	2006:Q4	Most recent	
Real gross domestic product	2.9	2.7	2.0	2.0	1.4		–
Final domestic demand	4.3	4.5	3.7	4.0	3.0		–
Government expenditure							–
Goods and services	2.7	3.4	4.4	2.0	1.8		–
Gross fixed capital	6.8	6.6	4.3	2.0	2.1		–
Consumer expenditure	3.9	4.1	3.7	5.1	3.1		–
Residential investment	3.2	2.4	-4.7	-6.9	0.3		–
Business fixed investment	9.4	9.2	6.9	9.4	6.0		–
Non-residential construction	7.9	10.7	8.2	10.4	10.5		–
Machinery and equipment	10.5	8.0	5.8	8.5	2.3		–
Business inventory investment ($ billion)	15.5	11.0	18.1	13.9	1.0		–
Exports	2.1	1.3	-1.3	3.5	4.8		–
Imports	7.1	5.2	9.0	5.1	-0.6		–
Current account balance							
(nominal $ billion)	31.8	24.3	20.2	23.1	12.0		–
(percentage of GDP)	2.3	1.7	1.4	1.6	0.8		–
Nominal personal income	5.0	5.8	-1.0	5.7	6.0		–
Nominal personal disposable income	4.2	6.1	-1.8	5.8	4.4		–
Real personal disposable income	2.5	4.8	-3.6	5.5	4.2		–
Profits before taxes	10.6	5.7	2.3	12.4	2.5		–
Costs and prices (%, y/y)							
GDP price deflator	3.2	2.2	2.9	1.5	0.5		–
Consumer Price Index (CPI)	2.2	2.0	2.6	1.7	1.3	2.0	Feb-2007
Core CPI[1]	1.6	1.9	1.8	2.1	2.2	2.4	Feb-2007
Unit labour costs	2.3	2.9	3.0	2.1	2.7		
Wage settlements (total)	2.3	2.5	2.7	2.6	2.1	2.3	Dec-2006
Labour market							
Unemployment rate (%)	6.8	6.3	6.2	6.4	6.2	6.1	Feb-2007
Employment growth	1.4	1.9	2.9	0.6	2.4	1.0	Feb-2007
Financial markets (average)							
Exchange rate (U.S. cents)	82.6	88.2	89.1	89.2	87.8	86.34	22-Mar-07
Prime interest rate (%)	4.4	5.8	5.9	6.0	6.0	6.00	22-Mar-07

Note: Real values are in chained 1997 dollars.
[1] Core inflation excludes eight of the components of the CPI basket that display the greatest volatility, as well as the effect of changes in indirect taxes on the remaining components.

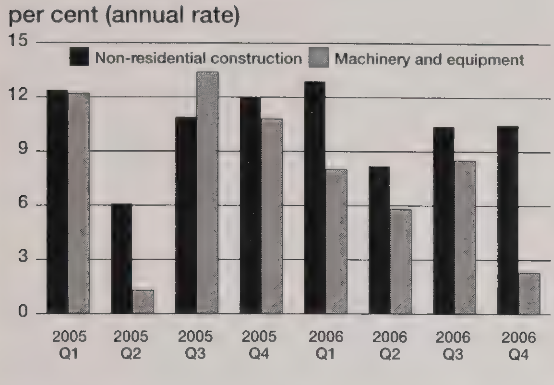
per capita real personal disposable income increased 2.9% to stand more than 23% above its trough in the second quarter of 1996. The personal savings rate was 1.5%, up from 1.3% in the third quarter.

Residential investment inched 0.3% higher in the fourth quarter following two consecutive declines. The home resale market strengthened, lifting agents' commissions and ownership transfer costs. Spending on renovations rose 9.2%. New construction fell 7.9%, the third consecutive quarterly decline.

Business investment in plant and equipment remains strong

Supported by healthy profitability, business investment in plant and equipment grew 6.0% in the fourth quarter, with non-residential construction and machinery and equipment

Chart 2
Growth in business investment in plant and equipment



investment registering their 16th consecutive gains (Chart 2). Non-residential construction rose 10.5%, the sixth double-digit increase in eight quarters. Spending on engineering projects surged in the quarter.

Business investment in machinery and equipment rose 2.3% in the fourth quarter, a slowdown from the 8.5% pace in the third quarter. Capital spending on transportation equipment and software increased while that on telecommunications equipment, computers, furniture, and industrial and agricultural machinery weakened.

Sharply lower business inventory accumulation

Businesses added $1.0 billion to inventories, down from the $13.9-billion accumulation in the third quarter. Wholesalers added little to inventories after a $7.2-billion investment in the previous quarter. Retailers reduced motor vehicle inventories, and retailers and manufacturers reduced stocks of non-durable goods. The inventory-to-sales ratio fell and remained below its historical average.

Exports climb again

Real exports increased 4.8% in the fourth quarter, the second consecutive gain following two consecutive quarterly declines. Exports of automotive products, especially motor vehicles, recovered from production delays in the third quarter and led the improvement. Exports of non-automotive consumer goods and machinery and equipment also rose. The overall gain was partly offset by reduced exports of energy products given warmer than normal weather in much of North America. Exports of services increased 2.9%.

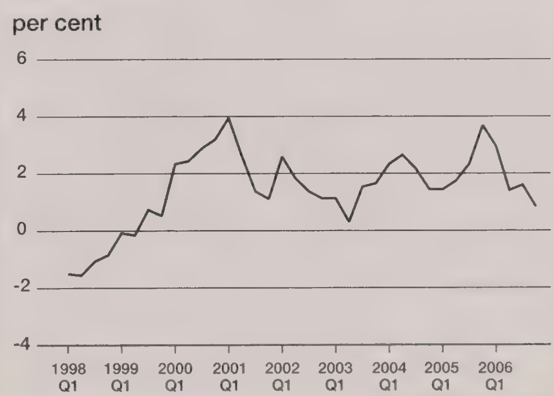
Imports dip

Real imports edged 0.6% lower in the fourth quarter after gains of 9.0% and 5.1% in the second and third quarters. Imports of automotive and energy products fell. Rising consumer demand boosted imports of non-automotive consumer goods by 8.8%, and stronger business demand raised imports of machinery and equipment by 3.8%, the 14th gain in the last 15 quarters. Imports of services increased 3.0%.

Smaller current account surplus

In the fourth quarter, a $5.2-billion improvement in the nominal trade surplus to $35.2 billion was more than offset by a $15.3-billion deterioration in the investment income deficit. Reduced profits from direct investments abroad lowered dividend receipts while record profits earned by non-residents on direct investment in Canada raised dividend payments. The current account surplus fell by $11.1 billion to $12.0 billion or 0.8% of nominal GDP (Chart 3).

Chart 3
Current account as a percentage of nominal GDP



Healthy corporate profits continue

Corporate profits rose 2.5% in the fourth quarter. This maintained their share of nominal GDP at 14.1%, slightly below the historical high set at the end of 2005 but well above the historical average of 10.2%. The automotive industry, given increased exports, and the wood and paper industry registered sharp gains, helping to boost manufacturers' profits. The construction, telecommunications and transportation industries also contributed to the overall increase in profits. However, reduced demand and lower prices cut the revenues of the oil and gas industry, restraining the overall gain in corporate profits.

Consumer price inflation remains subdued

The GDP deflator, a comprehensive measure of prices, rose 1.4% in the fourth quarter, up from 1.0% in the third, to stand 0.5% higher than a year earlier.

Year-over-year consumer price inflation increased to 2.0% in February 2007 from 1.2% in January, due mainly to higher gasoline prices and higher prices for fruits and vegetables. At 2.4%, core CPI inflation, which excludes the eight most volatile items and the effect of changes in indirect taxes, sat just above the 2% inflation target.

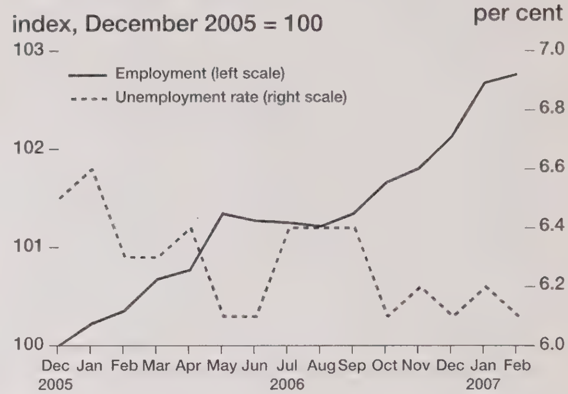
Unemployment rate remains low

Employment grew 2.4% in the fourth quarter, a sharply higher pace than in the third quarter. Solid job growth in January and February 2007 raised net job creation to a healthy 449,600 since the end of 2005 (Chart 4). The participation rate stood at 67.5% in February, the same as in January and up from 67.2% at the end of 2006.

The unemployment rate in February dipped to 6.1% from 6.2% in January. The February rate matched those in October and December 2006, the lowest level in 32 years.

Hourly labour productivity for the total economy grew 0.7% in the fourth quarter, the same pace as in the previous quarter. Labour costs per unit of output rose in the fourth quarter to sit 2.7% higher than a year earlier.

Chart 4
Employment and the unemployment rate



Bank of Canada holds policy rate steady

On March 6, the Bank of Canada held its key policy rate—the target for the overnight rate—unchanged at 4.25% for the sixth consecutive announcement after seven one-quarter-percentage-point increases over nine months through to May 2006. The Bank stated, "the current level of the target for the overnight rate is judged, at this time, to be consistent with achieving the inflation target over the medium term." On March 21, the U.S. Federal Reserve maintained a policy rate of 5.25% for the sixth consecutive Federal Open Market Committee decision. That followed 17 increases during a period of monetary tightening that the Federal Reserve initiated in June 2004. U.S. rates at all maturities exceed those in Canada.

The Canadian dollar closed at 86.34 U.S. cents on March 22.

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THE ECONOMY IN BRIEF

DEPARTMENT OF FINANCE JUNE 2007

OVERVIEW

- In the first quarter of 2007 real gross domestic product (GDP) growth accelerated to 3.7% following gains of about 1.5% in each of the three previous quarters.
- Domestic demand growth remained solid in the first quarter. Real final domestic demand grew 3.2% compared to 3.7% in the previous quarter. Growth in consumer spending on goods and services was healthy and residential investment rebounded after three consecutive declines. Business inventory accumulation climbed \$3.6 billion after almost no change in the fourth quarter.
- Real imports grew more than real exports, but improved terms of trade (the ratio of export to import prices) boosted nominal exports more than nominal imports. The larger nominal trade surplus increased the current account surplus (the amount receipts from non-residents exceed payments to them) by \$7.5 billion to \$26.0 billion, or to 1.7% of nominal GDP from 1.3% in the fourth quarter.
- Employment grew 3.9% in the first quarter, up from 2.4% growth in the fourth. In May 2007 the unemployment rate was 6.1% for the fourth consecutive month, a 32-year low.

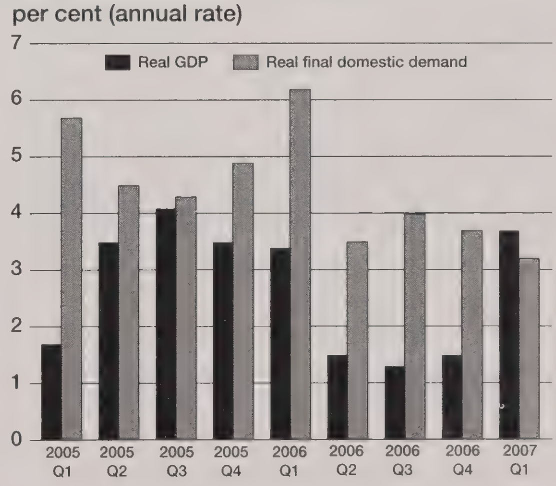
Real GDP increases 3.7%

Real GDP rose 3.7% in the first quarter of 2007 (Chart 1). Final domestic demand growth remained solid and inventory investment rebounded from a weak previous quarter. Real GDP outpaced final domestic demand for the first time in two and a half years.

Consumer spending stays healthy

Real consumer expenditure grew 3.9% in the first quarter of 2007, following an increase of 3.7% in the fourth quarter of 2006. Spending on durable goods (especially furniture and appliances), semi-durable goods (notably clothing and footwear) and non-durable goods grew faster than in the fourth quarter. However, growth of expenditures on services slowed.

Chart 1
Growth in real GDP and real final domestic demand



Note: Unless otherwise noted, data and per cent changes are quoted at annual rates. The cut-off date for data is noon, June 12, 2007.

Main economic indicators
(per cent change at annual rates unless otherwise indicated)

	2005	2006	2006:Q3	2006:Q4	2007:Q1		Most recent
Real gross domestic product	3.1	2.8	1.3	1.5	3.7		–
Final domestic demand	4.5	4.7	4.0	3.7	3.2		–
Government expenditure							–
Goods and services	2.2	3.3	1.5	3.0	2.7		–
Gross fixed capital	10.9	8.1	0.4	4.1	-0.7		–
Consumer expenditure	3.8	4.2	5.1	3.7	3.9		–
Residential investment	3.5	2.1	-6.2	-0.1	7.5		–
Business fixed investment	10.8	9.9	9.7	6.8	-0.6		–
Non-residential construction	10.8	12.9	12.6	11.8	5.3		–
Machinery and equipment	10.8	7.4	7.1	2.3	-6.0		–
Business inventory investment ($ billion)	13.5	10.2	13.0	0.1	3.6		–
Exports	2.2	0.7	2.6	2.7	2.1		–
Imports	7.5	5.0	6.2	-0.9	2.6		–
Current account balance							
(nominal $ billion)	27.9	23.6	22.7	18.5	26.0		–
(percentage of GDP)	2.0	1.6	1.6	1.3	1.7		–
Nominal personal income	5.1	6.1	5.6	6.3	8.4		–
Nominal personal disposable income	4.3	6.4	5.8	5.6	8.5		–
Real personal disposable income	2.6	5.0	5.5	5.7	5.5		–
Profits before taxes	11.9	5.0	9.3	-0.8	13.0		–
Costs and prices (%, y/y)							
GDP price deflator	3.4	2.4	2.0	0.9	2.4		–
Consumer Price Index (CPI)	2.2	2.0	1.7	1.3	1.8	2.2	Apr-2007
Core CPI[1]	1.6	1.9	2.1	2.2	2.2	2.5	Apr-2007
Unit labour costs	2.6	3.1	2.8	3.6	3.2		
Wage settlements (total)	2.3	2.5	2.6	2.1	3.1	3.1	Mar-2007
Labour market							
Unemployment rate (%)	6.8	6.3	6.4	6.2	6.1	6.1	May-2007
Employment growth	1.4	1.9	0.6	2.4	3.9	0.7	May-2007
Financial markets (average)							
Exchange rate (U.S. cents)	82.6	88.2	89.2	87.8	85.4	94.29	11-Jun-07
Prime interest rate (%)	4.4	5.8	6.0	6.0	6.0	6.00	11-Jun-07

Note: Real values are in chained 1997 dollars.

[1] Core inflation excludes eight of the components of the CPI basket that display the greatest volatility, as well as the effect of changes in indirect taxes on the remaining components.

Sources: Statistics Canada, the Bank of Canada and Human Resources and Social Development Canada.

Personal income increased 8.4% in the first quarter. Labour income grew 8.2% after a 6.4% gain in the fourth quarter, given higher wages and salaries. Growth in labour income was boosted by a Quebec government pay equity settlement and a contribution from the Newfoundland and Labrador government to the Public Service Pension Plan. Real personal disposable income rose 5.5% and per capita real personal disposable income increased 4.9% to stand nearly 38% above its most recent trough in 1996. The personal savings rate was 2.6%, up from 2.2% in the previous quarter.

Residential investment grows but business investment weakens

Residential investment rose 7.5% in the first quarter after three consecutive declines. The home resale market strengthened to record levels, boosting ownership transfer costs 29.6%.

Spending on renovations increased 7.9%. New construction dipped 0.4%, the fourth successive quarterly decline.

Business investment in plant and equipment edged down 0.6% in the first quarter, with spending on machinery and equipment registering a 6.0% drop after 16 consecutive gains. Increased capital spending on furniture, computers, software and non-automotive transportation equipment was more than offset by reduced spending on motor vehicles and industrial, agricultural, telecommunications and other equipment.

Non-residential construction rose 5.3%, the 17th consecutive increase. Expenditures on building projects jumped 10.3%. Growth in spending on engineering projects slowed to 3.6% from 16.1% in the previous quarter.

Increased business inventory accumulation

Inventory investment rebounded from a weak fourth quarter. Businesses added $3.6 billion to inventories in the first quarter, up from the previous quarter's $0.1-billion increase but below the $13.0-billion accumulation in the third quarter of 2006. In the first quarter, wholesalers added non-durable goods while manufacturers raised their holdings of durable goods. However, the inventory-to-sales ratio fell due to strong sales in the quarter.

Real exports rise again

Real exports increased 2.1% in the first quarter, a third consecutive quarterly gain. Exports of machinery and equipment and automotive and energy products climbed. The overall gain, however, was partly offset by reduced exports of forest and industrial products as the U.S. housing market remained weak. Exports of services increased 3.6%.

Real imports increase

Real imports grew 2.6% in the first quarter following a 0.9% decrease in the previous quarter. Imports of energy, industrial and automotive products climbed and non-automotive consumer goods imports increased with consumer demand. However, imports of machinery and equipment declined 7.9% as growth in business investment weakened. This was the first decline in imports of machinery and equipment in the last 16 quarters. Imports of services were largely unchanged.

Current account surplus grows

In the first quarter, Canada's current account surplus increased $7.5 billion from its fourth-quarter level to $26.0 billion, rising to 1.7% of nominal GDP from 1.3% (Chart 2). A jump in the terms of trade (the ratio of export to import prices) produced a $9.5-billion improvement in the nominal trade surplus to $41.7 billion. That gain was only partly offset by a $2.7-billion worsening in the investment income deficit. Lower profits earned by Canadians on direct investments abroad reduced dividends received.

Corporate profits show a healthy gain

Corporate profits rose 13.0% in the first quarter following a dip of 0.8% in the fourth quarter. This raised their share of nominal GDP to 13.9% (Chart 3). While below the historical high set at the end of 2005, this is well above the historical average of 10.3%. The profits of the petroleum and coal products manufacturing sector jumped, due partly to rising commodity prices. Profits of retailers benefited from higher consumer spending.

Chart 2
Current account as a percentage of nominal GDP

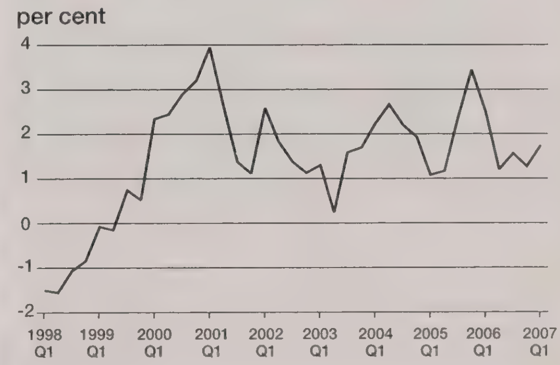


Chart 3
Profits before taxes as a share of nominal GDP

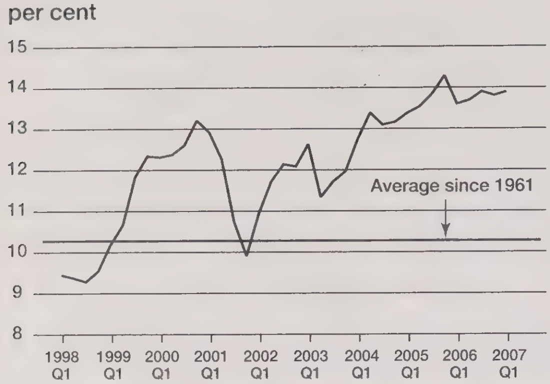
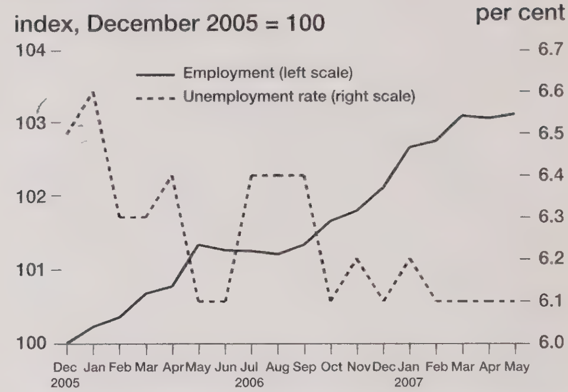


Chart 4
Employment and the unemployment rate



Consumer price inflation remains subdued but sits above the inflation target

The GDP deflator, a comprehensive measure of prices, climbed 6.1% in the first quarter, up from 0.4% in the fourth. This spike reflected the strength of commodity prices and the special labour income payments made by the Quebec and Newfoundland and Labrador governments. The GDP deflator stood 2.4% higher than a year earlier.

Year-over-year consumer price inflation decreased to 2.2% in April 2007 from 2.3% in March, due mainly to a slowing in the rate of increase of gasoline prices. At 2.5% in April, core CPI inflation, which excludes the eight most volatile items and the effect of changes in indirect taxes, remained above the 2% inflation target.

Unemployment rate remains low

Employment grew 3.9% in the first quarter, up from 2.4% growth in the fourth. Despite only modest job growth in April and May 2007, net job creation in Canada stood at a healthy 508,600 since the end of 2005 (Chart 4). In May the unemployment rate remained at 6.1% for the fourth consecutive month, the lowest level in 32 years. The participation rate stood at 67.5%, down slightly from April and just below the record high of 67.7% last seen in March.

Hourly labour productivity for the total economy grew 1.8% in the first quarter, more than double the pace of the previous quarter. Labour costs per unit of output on a total economy basis rose in the first quarter to stand 3.2% higher than a year earlier.

Bank of Canada holds policy rate steady

On May 29, the Bank of Canada held its key policy rate—the target for the overnight rate—unchanged at 4.25% for the eighth consecutive announcement, after seven one-quarter-percentage-point increases over nine months through to May 2006. The Bank stated that "there is an increased risk that future inflation will persist above the 2 per cent inflation target and that some increase in the target for the overnight rate may be required in the near term to bring inflation back to the target." On May 9, the U.S. Federal Reserve maintained a policy rate of 5.25% for the seventh consecutive Federal Open Market Committee decision. That followed 17 increases during a period of monetary tightening that the Federal Reserve initiated in June 2004. U.S. rates at all maturities exceed those in Canada.

The Canadian dollar closed at 94.29 U.S. cents on June 11.

The main source of data used in this publication is Statistics Canada. Subscription inquiries should be directed to the Department of Finance Distribution Centre at 613-995-2855. For other inquiries about this publication, contact Isabelle Amano at 613-992-4364.
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THE ECONOMY IN BRIEF

DEPARTMENT OF FINANCE

OCTOBER 2007

OVERVIEW

- In the second quarter of 2007 real gross domestic product (GDP) grew 3.4%, down from 3.9% in the first quarter but more than double the average pace of growth in the last three quarters of 2006.
- Domestic demand growth remained solid in the second quarter. Real final domestic demand rose 4.3% compared to 2.8% in the previous quarter. Consumer spending, residential investment and business fixed investment all showed healthy gains. Business inventory accumulation climbed to $4.8 billion from $3.2 billion in the first quarter.
- Real imports grew more than real exports, but improved terms of trade (the ratio of export to import prices) boosted the nominal trade surplus, raising the current account surplus (the amount that receipts from non-residents exceed payments to them). The current account surplus increased by $9.0 billion to $33.4 billion, rising to 2.2% of nominal GDP from 1.6% in the first quarter.
- Employment grew 1.3% in the second quarter, down from a 3.9% growth rate in the first quarter. In August the unemployment rate was 6.0%, the lowest level in nearly 33 years.

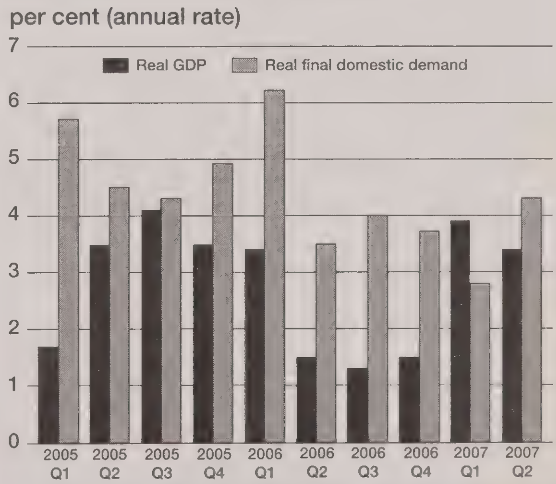
Real GDP increases 3.4%

Real GDP rose 3.4% in the second quarter of 2007 (Chart 1). Domestic demand growth strengthened. The increase in real final domestic demand outpaced that of real GDP for the 10th time in the last 11 quarters as real imports rose more than real exports.

Consumer spending stays healthy

Real consumer expenditure grew 4.9% in the second quarter of 2007, following a gain of 3.4% in the first quarter. Spending on durable goods (especially automotive products), non-durable goods and services grew faster than in the first quarter. Growth of expenditures on semi-durable goods, however, slowed.

Chart 1
Growth in real GDP and real final domestic demand



Note: Unless otherwise noted, data and per cent changes are quoted at annual rates. The cut-off date for data is end of day, September 20, 2007.

Main economic indicators
(per cent change at annual rates unless otherwise indicated)

	2005	2006	2006:Q4	2007:Q1	2007:Q2	Most recent	
Real gross domestic product	3.1	2.8	1.5	3.9	3.4		–
Final domestic demand	4.5	4.7	3.7	2.8	4.3		–
Government expenditure							–
Goods and services	2.2	3.3	3.0	2.4	2.6		–
Gross fixed capital	10.9	8.1	4.1	-2.1	1.7		–
Consumer expenditure	3.8	4.2	3.7	3.4	4.9		–
Residential investment	3.5	2.1	-0.1	8.4	5.2		–
Business fixed investment	10.8	9.9	6.8	-1.2	4.1		–
Non-residential construction	10.8	12.9	11.8	3.6	2.2		–
Machinery and equipment	10.8	7.4	2.3	-5.5	6.1		–
Business inventory investment ($ billion)	13.5	10.2	0.1	3.2	4.8		–
Exports	2.2	0.7	2.7	0.8	2.9		–
Imports	7.5	5.0	-0.9	-0.4	6.4		–
Current account balance							
(nominal $ billion)	27.9	23.6	18.5	24.4	33.4		–
(percentage of GDP)	2.0	1.6	1.3	1.6	2.2		–
Nominal personal income	5.1	6.1	6.3	9.8	6.9		–
Nominal personal disposable income	4.3	6.4	5.6	8.8	3.4		–
Real personal disposable income	2.6	5.0	5.7	5.4	1.0		–
Profits before taxes	11.9	5.0	-0.8	9.0	4.7		–
Costs and prices (%, y/y)							
GDP price deflator	3.4	2.4	0.9	2.5	3.5		–
Consumer Price Index (CPI)	2.2	2.0	1.4	1.8	2.2	1.7	Aug-2007
Core CPI[1]	1.6	1.9	2.2	2.3	2.4	2.2	Aug-2007
Unit labour costs	2.6	3.1	3.6	3.5	4.6		
Wage settlements (total)	2.3	2.5	2.1	3.1	3.0	3.8	Jul-2007
Labour market							
Unemployment rate (%)	6.8	6.3	6.2	6.1	6.1	6.0	Aug-2007
Employment growth	1.4	1.9	2.4	3.9	1.3	1.7	Aug-2007
Financial markets (average)							
Exchange rate (U.S. cents)	82.6	88.2	87.8	85.4	91.1	99.87	20-Sep-07
Prime interest rate (%)	4.4	5.8	6.0	6.0	6.0	6.25	20-Sep-07

Note: Real values are in chained 2002 dollars.
[1] Core inflation excludes eight of the components of the CPI basket that display the greatest volatility, as well as the effect of changes in indirect taxes on the remaining components.

Personal income increased 6.9% in the quarter. Aided by gains in employment and the average wage rate, labour income climbed 7.6% after a 9.1% gain in the first quarter. Quebec government pay equity payments and contributions from the Newfoundland and Labrador government to its Public Service Pension Plan raised labour income in the first and second quarters. Real personal disposable income rose 1.0% and per capita real personal disposable income held steady. Given the strength in consumer spending, the personal savings rate was 1.8%, down from 2.7% in the first quarter.

Residential investment grows again and business investment rebounds

Residential investment rose 5.2% in the second quarter after a gain of 8.4% in the first quarter. The home resale market strengthened to record levels, boosting ownership transfer costs 19.1%.

New construction increased 3.0% after a gain of 1.1% in the first quarter. Spending on renovations increased 1.7%.

Business investment in plant and equipment grew 4.1% in the second quarter, rebounding from a decline of 1.2% in the first quarter. Spending on machinery and equipment registered a 6.1% gain after a 5.5% decline in the first quarter. The increase was concentrated in capital spending on automobiles and telecommunications equipment. Non-residential construction continued to rise, but at 2.2%, posted the smallest gain in the last 18 quarters.

Increased business inventory accumulation

Businesses added $4.8 billion to inventories in the second quarter, up from the previous quarter's $3.2-billion increase. Inventories of non-durable manufactured goods jumped while those of motor vehicles declined given increased automotive purchases by consumers and businesses. Given strong sales in the quarter, the overall inventory-to-sales ratio fell, matching its lowest recorded level.

Real imports increase more than real exports

Real exports increased 2.9% in the second quarter, a fourth consecutive quarterly gain. In goods trade, increased exports of energy, forest and industrial products were partly offset by reduced exports of machinery and equipment and automotive products. Exports of services edged up 0.6%.

Real imports grew 6.4% following a 0.4% decline in the first quarter. As a result, trade was once again a drag on growth after deviating from that trend during the previous two quarters, a trend coinciding with the appreciation of the Canadian dollar since 2002. In the quarter, all major import categories increased except automotive products. Imports of non-automotive consumer goods increased in line with strong consumer demand while imports of machinery and equipment rose as business investment strengthened. Imports of services increased 2.6%.

Current account surplus grows

Despite real imports exceeding real exports in the second quarter, the current account improved by $9.0 billion to $33.4 billion or 2.2% of nominal GDP, registering its 32nd consecutive surplus (Chart 2). A further appreciation of the Canadian dollar in the quarter continued to reduce import prices more than export prices, boosting the terms of trade. Export prices fell nearly 4% (annual rate) while import prices dropped more than 12%, raising the trade surplus by $7.1 billion.

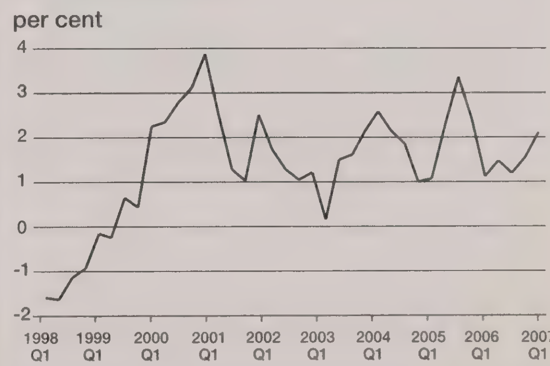
Corporate profits show a healthy gain

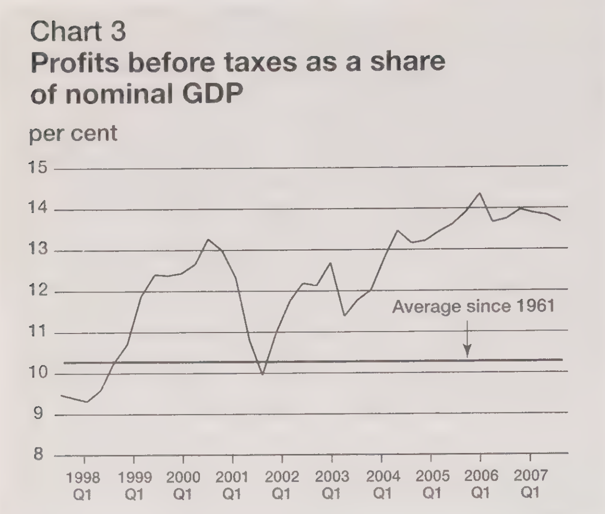
Corporate profits rose 4.7% in the second quarter after a gain of 9.0% in the first quarter. Profits decreased to 13.6% of nominal GDP (Chart 3). While slightly below the peak at the end of 2005, this was well above the historical average of 10.3%. Stronger consumer spending boosted profits for retailers and wholesalers while higher mineral prices supported the mining sector. Profits in the manufacturing sector and the financial industry declined in the quarter.

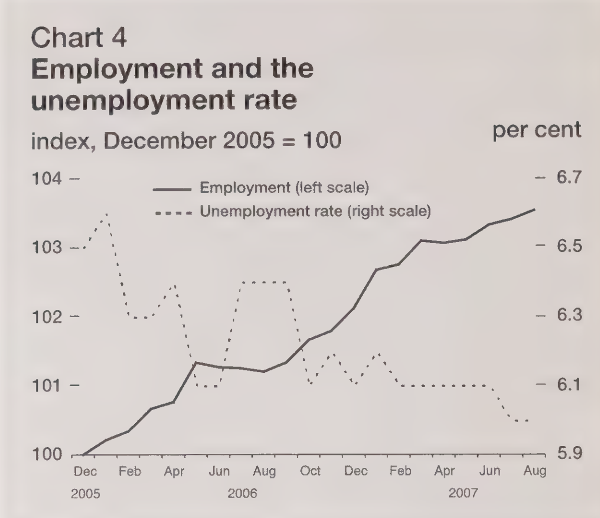
Consumer price inflation eases but core stays above the inflation target

The GDP deflator, a comprehensive measure of prices, climbed nearly 6% in the second quarter, down from about 6.5% in the first. The increases in the GDP deflator were due to stronger terms of trade, higher consumer prices and the continued

Chart 2
Current account as a percentage of nominal GDP







increase in the price of government goods and services due to the pension payments in Newfoundland and Labrador and the pay equity settlement in Quebec. The GDP deflator stood 3.5% higher than a year earlier.

Year-over-year consumer price inflation fell to 1.7% in August after four consecutive months at 2.2%, as gasoline prices declined. Core CPI inflation, which excludes the eight most volatile items and the effect of changes in indirect taxes, remained above the 2% inflation target, but declined to 2.2% in August from 2.3% in July.

Low unemployment rate

Employment grew 1.3% in the second quarter, a slower pace than the strong 3.9% gain in the first quarter. With further gains in July and August, net job creation stood at a healthy 578,000 since the end of 2005 (Chart 4). In August the unemployment rate was 6.0%, the same as in July and the lowest level in nearly 33 years. That followed five consecutive months at 6.1%. The participation rate stood at 67.5% in August, the same as in July and just below the record of 67.7% last seen in March.

Hourly labour productivity for the total economy grew 0.3% in the second quarter, down from the 2.5% pace of the previous quarter. Labour costs per unit of output on a total economy basis rose 4.9% in the second quarter, and are now 4.6% higher than a year earlier.

Bank of Canada holds policy rate steady

In response to credit market disruptions created by problems in the U.S. housing and sub-prime mortgage markets, on August 17 the U.S. Federal Reserve cut the discount rate by 50 basis points. On September 18, it lowered its policy rate from 5.25% to 4.75% and reduced the discount rate by another 50 basis points. On September 5, the Bank of Canada held its key policy rate—the target for the overnight rate—at 4.50% after raising it to that level on July 10. The July increase followed eight consecutive announcements that left the target rate unchanged. In the September announcement, the Bank judged "that the current level of the target for the overnight rate is appropriate." With core CPI inflation modestly exceeding the target, the Bank believes that the Canadian economy is operating above its production potential, but that adjustments in the U.S. housing sector and credit tightening could ease growth.

Higher energy prices, such as those for crude oil, boosted the value of the Canadian dollar. With world oil prices climbing to a record nominal dollar high of over $80 U.S. per barrel, partly in reaction to the cuts by the U.S. Federal Reserve, on September 20 the Canadian dollar closed at an over 30-year high of 99.87 U.S. cents.

The main source of data used in this publication is Statistics Canada. Subscription inquiries should be directed to the Department of Finance Distribution Centre at 613-995-2855. For other inquiries about this publication, contact Isabelle Amano at 613-992-4321.
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THE ECONOMY IN BRIEF

DEPARTMENT OF FINANCE JANUARY 2008

OVERVIEW

- In the third quarter of 2007 real gross domestic product (GDP) grew 2.9%, down from a 3.8% pace in the second quarter.
- Domestic demand growth remained solid. Real final domestic demand rose 4.6% compared to 4.9% in the second quarter. Business inventory accumulation was $15.4 billion after a smaller buildup of $4.5 billion in the second quarter.
- Real imports grew more than real exports, moderating real GDP growth and narrowing the nominal trade surplus and the current account surplus (the amount that receipts from non-residents exceed payments to them). The current account surplus decreased by $21.2 billion to $4.2 billion, falling to 0.3% of nominal GDP from 1.7% in the previous quarter.
- A healthy labour market has underpinned domestic demand growth. Employment rose 1.7% in the third quarter, up from 1.3% in the second quarter. In November, the unemployment rate was 5.9%, up slightly from 5.8% in October when it was at its lowest level in nearly 33 years.

Real GDP increases 2.9%

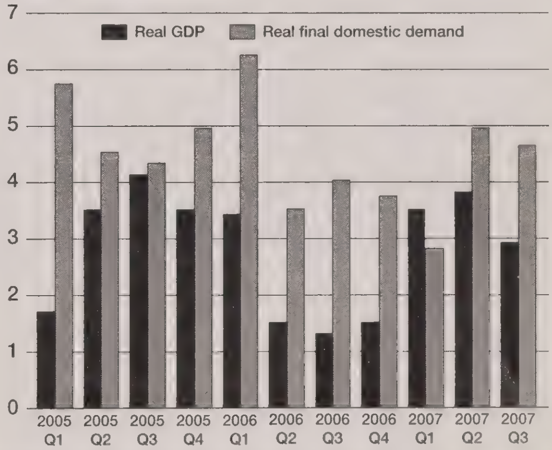
Real GDP rose 2.9% in the third quarter of 2007 (Chart 1). Domestic demand growth remained solid, with real final domestic demand and inventory investment both contributing to the gain. The increase in real final domestic demand outpaced that of real GDP for the 11th time in the last 12 quarters as real imports rose more than real exports.

Consumer spending stays healthy

Real consumer expenditure grew 3.0% in the third quarter of 2007, following a gain of 5.9% in the previous quarter. Spending on semi-durable goods and services (notably net spending abroad) increased, while that on durable goods (especially automotive products) and non-durable goods fell.

Note: Unless otherwise noted, data and per cent changes are quoted at annual rates. The cut-off date for data is end of day, December 18, 2007.

Chart 1
Growth in real GDP and real final domestic demand
per cent (annual rate)



Main economic indicators
(per cent change at annual rates unless otherwise indicated)

	2005	2006	2007:Q1	2007:Q2	2007:Q3	Most recent	
Real gross domestic product	3.1	2.8	3.5	3.8	2.9		–
Final domestic demand	4.5	4.7	2.8	4.9	4.6		–
Government expenditure							–
Goods and services	2.2	3.3	2.3	3.2	5.8		–
Gross fixed capital	10.9	8.1	-2.0	0.8	6.5		–
Consumer expenditure	3.8	4.2	3.4	5.9	3.0		–
Residential investment	3.5	2.1	8.2	5.8	5.2		–
Business fixed investment	10.8	9.9	-0.8	3.6	8.9		–
Non-residential construction	10.8	12.9	1.6	1.4	2.9		–
Machinery and equipment	10.8	7.4	-3.2	5.8	15.4		–
Business inventory investment ($ billion)	13.5	10.2	2.5	4.5	15.4		–
Exports	2.2	0.7	0.8	3.1	2.3		–
Imports	7.5	5.0	0.1	7.7	18.6		–
Current account balance							
(nominal $ billion)	27.9	23.6	25.6	25.4	4.2		–
(percentage of GDP)	2.0	1.6	1.7	1.7	0.3		–
Nominal personal income	5.1	6.1	9.8	6.7	1.1		–
Nominal personal disposable income	4.3	6.4	9.3	3.1	2.5		–
Real personal disposable income	2.6	5.0	5.8	0.8	2.4		–
Profits before taxes	11.9	5.0	9.0	5.1	10.6		–
Costs and prices (%, y/y)							
GDP price deflator	3.4	2.4	2.6	3.5	2.8		–
Consumer Price Index (CPI)	2.2	2.0	1.8	2.2	2.1	2.5	Nov-2007
Core CPI[1]	1.6	1.9	2.3	2.4	2.2	1.6	Nov-2007
Unit labour costs	2.6	3.1	3.5	4.3	3.0		
Wage settlements (total)	2.3	2.5	3.1	3.0	3.9	4.7	Sep-2007
Labour market							
Unemployment rate (%)	6.8	6.3	6.1	6.1	6.0	5.9	Nov-2007
Employment growth	1.4	1.9	3.9	1.3	1.7	3.1	Nov-2007
Financial markets (average)							
Exchange rate (U.S. cents)	82.6	88.2	85.4	91.1	95.7	99.45	18-Dec-07
Prime interest rate (%)	4.4	5.8	6.0	6.0	6.3	6.00	18-Dec-07

Note: Real values are in chained 2002 dollars.

[1] Core inflation excludes eight of the components of the CPI basket that display the greatest volatility, as well as the effect of changes in indirect taxes on the remaining components.

Sources: Statistics Canada, the Bank of Canada and Human Resources and Social Development Canada.

Gains in income growth have supported household spending. Personal income increased 1.1% in the quarter. Supported by higher employment, labour income rose 1.9%, albeit a slowdown from 7.2% in the second quarter. This slowing reflected the end of Quebec government pay equity payments and special contributions from the Newfoundland and Labrador government to its Public Service Pension Plan. These factors had boosted labour income in the first half of 2007.

In the third quarter, real personal disposable income rose 2.4% and per capita real personal disposable income increased 1.1%. The personal savings rate was 1.3%, down from 1.6% in the second quarter.

Residential and business investment grow

Residential investment rose 5.2% in the third quarter after a gain of 5.8% in the second. Increased housing starts raised new construction activity by 10.2%. Spending on renovations increased 4.8%. The home resale market, however, softened from record levels, reducing transfer costs by 6.1%.

Business investment in plant and equipment grew 8.9% in the third quarter following a gain of 3.6% in the second. Spending on machinery and equipment rose 15.4%. With the airline industry raising capital outlays, investment in other transportation equipment jumped. Businesses also sharply boosted spending on computers, software and telecommunications equipment. Non-residential construction rose 2.9%, double the pace in the previous quarter and the 19th consecutive quarterly increase.

Increased business inventory accumulation

Businesses added $15.4 billion to inventories in the third quarter, up from $4.5 billion in the second. The increase in inventory investment contributed 2.9 percentage points to real GDP growth. Inventories of retailers and wholesalers rose sharply, with a large part of that build-up being motor vehicles. Manufacturers also added to inventories. With the inventory accumulation in the quarter, the overall inventory-to-sales ratio rose, but remained well below its recent average.

Real imports rise more than real exports, shrinking the current account surplus

In the third quarter, real exports rose 2.3% while real imports climbed 18.6%, continuing a trend of imports growing more than exports that began as the Canadian dollar started to appreciate at the end of 2002. Greater real exports of industrial goods and materials and automotive and energy products more than offset reduced exports of machinery and equipment and forest products. Weakness in the U.S. housing market dampened Canada's exports of forest products.

Real imports, except for energy products, were up across all major categories, with sharp gains in machinery and equipment, automotive products and other consumer goods, a reflection of increased domestic spending by businesses and households for final products and inventories and of the reduction in the prices of imports given the appreciation of the Canadian dollar.

As a result of strong real import growth and weaker real export growth in the quarter, the nominal trade balance worsened by $20.5 billion and the current account deteriorated by $21.2 billion to $4.2 billion, or 0.3% of nominal GDP (Chart 2). Nonetheless, this was the 33rd consecutive current account surplus.

Corporate profits show a healthy gain

Corporate profits rose 10.6% in the third quarter after a gain of 5.1% in the second quarter. Profits as a share of nominal GDP increased modestly to 13.9% (Chart 3). While somewhat below the peak at the end of 2005, their share remained near record highs. Stronger consumer spending boosted the profits of retailers and wholesalers. World demand and higher prices supported the oil and gas extraction industry along with petroleum and coal refineries. Profits at financial institutions also increased. Wood and paper producers, however, saw profits decline as the weak housing market in the United States hindered exports.

Chart 2
Current account as a percentage of nominal GDP

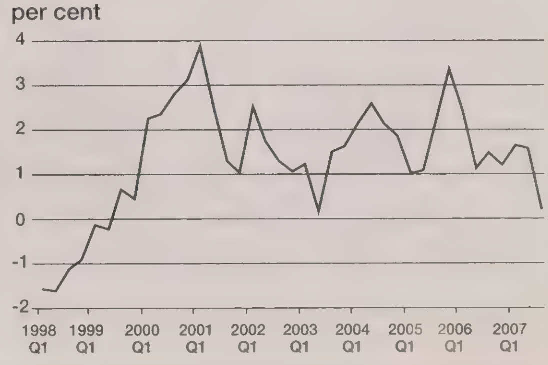


Chart 3
Profits before taxes as a share of nominal GDP

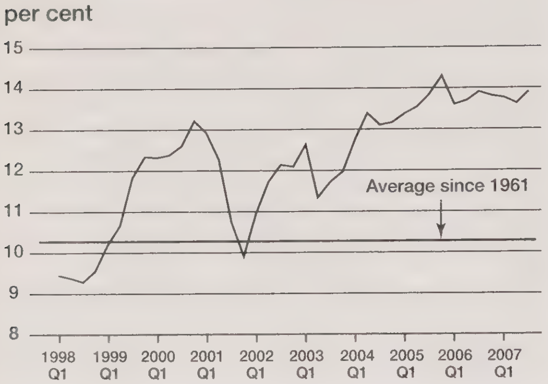
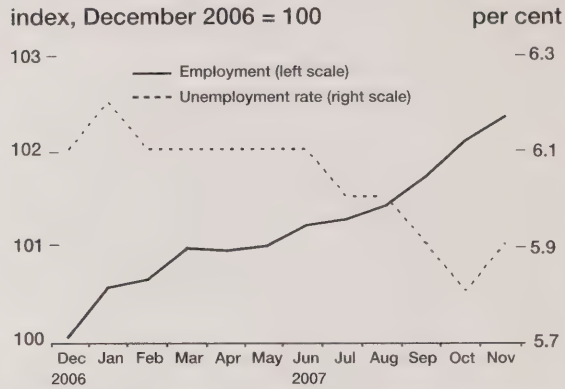


Chart 4
Employment and the unemployment rate



Consumer price inflation remains subdued

The GDP deflator, a comprehensive measure of prices, declined 1.0% in the third quarter following a 5.3% increase in the second. The decrease in the deflator was due to lower prices for energy exports and the end of special pension payments in Newfoundland and Labrador and pay equity payments in Quebec. The GDP deflator stood 2.8% higher than a year earlier.

Year-over-year consumer price inflation was 2.5% in November, up from 2.4% in October but the same as in September. Core CPI inflation, which excludes the eight most volatile items and the effect of changes in indirect taxes, fell to 1.6% year-over-year in November, down from 1.8% in October, when core inflation was below the official 2% target for the first time since June 2006.

Low unemployment rate

Employment grew 1.7% in the third quarter, a stronger pace than the 1.3% rate in the second quarter. With further gains in October and November, net job creation stood at a healthy 388,200 since the end of 2006 (Chart 4). In November, the unemployment rate was 5.9%, up slightly from 5.8% in October when it was at its lowest level in nearly 33 years. The participation rate stood at 67.8% in November, a record high.

Hourly labour productivity for the total economy was unchanged in the third quarter following growth of 1.2% in the previous quarter. Labour costs per unit of output on a total economy basis declined 1.4% in the third quarter, and are now 3.0% higher than a year earlier.

Bank of Canada lowers policy rate

On December 4, the Bank of Canada reduced its key policy rate—the target for the overnight rate—to 4.25%. In the announcement, the Bank judged that global financial market difficulties related to the valuation of structured products, anticipated losses on U.S. sub-prime mortgages and tightened credit conditions, plus risks to Canadian exports, had shifted the balance of risks for inflation to the downside. In response to credit market disruptions, on December 11 the U.S. Federal Reserve cut its discount rate and its target rate by 25 basis points. Since mid-August, the Fed has reduced its discount rate by 150 basis points and its target rate by 100 basis points.

High commodity prices, such as those for crude oil, have played a role in keeping the value of the Canadian dollar near parity with the U.S. dollar. After hitting a modern-day record high close of 108.52 U.S. cents on November 6, 2007, the value of the Canadian dollar has fallen to below parity. It closed at 99.45 U.S. cents on December 18.

The main source of data used in this publication is Statistics Canada. Subscription inquiries should be directed to the Department of Finance Distribution Centre at 613-995-2855. For other inquiries about this publication, contact Isabelle Amano at 613-992-4321.
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THE ECONOMY IN BRIEF

DEPARTMENT OF FINANCE APRIL 2008

Note: In an effort to streamline its publishing program, the Department of Finance will cease publication of *The Economy in Brief* after this issue, as the data used in its preparation is available from public sources.

OVERVIEW

- In the fourth quarter of 2007 real gross domestic product (GDP) increased 0.8%, the slowest pace of growth since the second quarter of 2003. For the year as a whole real GDP increased 2.7%, down slightly from 2.8% in 2006.
- Real final domestic demand remained robust in the fourth quarter, rising 6.9%, its strongest growth rate in 11 years. Strong household and corporate balance sheets, together with a healthy labour market, continued to underpin domestic demand. Employment rose 2.9% in the fourth quarter, up from 1.7% in the third quarter. In February 2008, the unemployment rate remained at 5.8%, matching a 33-year low.
- Real exports fell while real imports grew strongly in the fourth quarter, contributing to lower GDP growth in the quarter and to a narrowing of the trade surplus. The current account declined from a surplus of $5.3 billion in the third quarter to a deficit of $2.1 billion in the fourth quarter, the first deficit in the current account since the second quarter of 1999. For 2007 as a whole, the current account registered a significant surplus of $14.2 billion or 0.9% of nominal GDP.

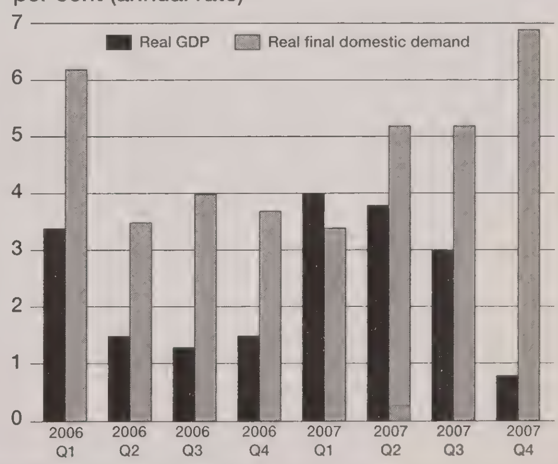
Real GDP increases 0.8%

Real GDP rose 0.8% in the fourth quarter of 2007. With real imports rising and real exports falling, growth in real final domestic demand accounted for the overall gain and outpaced growth in real GDP for the 12th time in the last 13 quarters (Chart 1).

Consumer spending grows sharply

Real consumer expenditure increased 7.4% in the fourth quarter, the strongest gain since the third quarter of 1985. Spending in all major categories rose.

Chart 1
Growth in real GDP and real final domestic demand
per cent (annual rate)



Note: Unless otherwise noted, data and per cent changes are quoted at annual rates. Incorporates data up to March 28, 2008.

Main economic indicators
(per cent change at annual rates unless otherwise indicated)

	2006	2007	2007:Q2	2007:Q3	2007:Q4		Most recent
Real gross domestic product	2.8	2.7	3.8	3.0	0.8		–
Final domestic demand	4.7	4.3	5.2	5.2	6.9		–
Government expenditure							–
Goods and services	3.3	3.6	4.1	6.2	6.9		–
Gross fixed capital	8.1	4.5	6.6	9.8	5.9		–
Consumer expenditure	4.2	4.7	5.8	4.5	7.4		–
Residential investment	2.1	3.2	6.5	5.5	2.4		–
Business fixed investment	9.9	4.4	3.3	5.5	7.2		–
Non-residential construction	12.9	3.9	-2.8	-2.4	0.4		–
Machinery and equipment	7.4	5.1	9.6	13.7	14.3		–
Business inventory investment ($ billion)	10.2	10.8	4.8	16.4	18.7		–
Exports	0.7	0.9	2.3	0.7	-8.5		–
Imports	5.0	5.7	7.3	18.4	10.9		–
Current account balance							
(nominal $ billion)	23.6	14.2	25.6	5.3	-2.1		–
(percentage of GDP)	1.6	0.9	1.7	0.3	-0.1		–
Nominal personal income	6.1	6.1	6.3	2.9	5.3		–
Nominal personal disposable income	6.4	5.6	2.6	4.9	6.4		–
Real personal disposable income	5.0	4.0	0.2	4.4	5.5		–
Profits before taxes	5.0	5.8	5.7	7.9	2.2		–
Costs and prices (%, y/y)							
GDP price deflator	2.4	3.1	3.4	2.8	3.9		–
Consumer Price Index (CPI)	2.0	2.2	2.2	2.1	2.4	1.8	Feb-2008
Core CPI[1]	1.9	2.1	2.4	2.2	1.6	1.5	Feb-2008
Unit labour costs	3.1	2.9	2.8	-2.4	5.8		
Wage settlements (total)	2.5	3.3	3.0	3.9	3.4	3.3	Jan-2008
Labour market							
Unemployment rate (%)	6.3	6.0	6.1	6.0	5.9	5.8	Feb-2008
Employment growth	1.9	2.3	1.5	1.7	2.9	3.1	Feb-2008
Financial markets (average)							
Exchange rate (U.S. cents)	88.2	93.5	91.1	95.7	101.9	97.90	28-Mar-08
Prime interest rate (%)	5.8	6.1	6.0	6.3	6.2	5.25	28-Mar-08

Note: Real values are in chained 2002 dollars.
[1] Core inflation excludes eight of the components of the CPI basket that display the greatest volatility, as well as the effect of changes in indirect taxes on the remaining components.
Sources: Statistics Canada, the Bank of Canada and Human Resources and Social Development Canada.

Household spending was supported by personal income growth of 5.3%, up sharply from 2.9% in the third quarter. With gains in employment and wages, labour income jumped 7.3% after a 1.5% rise in the previous quarter.

In the fourth quarter, real personal disposable income rose 5.5% while per capita real personal disposable income increased 4.1%. The personal savings rate was 0.8%, down from 1.3% in the previous two quarters.

Residential and business investment grow

Residential investment rose 2.4% in the fourth quarter, less than half the pace in the third. Housing starts declined in the quarter, moderating growth in new construction activity to 5.4% from 10.2% in the previous quarter. Spending on renovations rose 5.0%. The home resale market, however, softened, reducing transfer expenditures by 10.1%.

Business investment in plant and equipment grew 7.2%, up from 5.5% in the third quarter. Spending on machinery and equipment increased 14.3%, a second consecutive double-digit gain, while non-residential construction rose 0.4%.

Increased business inventory accumulation

Businesses added $18.7 billion to inventories in the fourth quarter, up from $16.4 billion in the third, thereby contributing to real GDP growth in the quarter. Inventories of retailers and wholesalers rose significantly. With the accumulation in the quarter, the overall inventory-to-sales ratio increased, but remained well below its recent average.

Real exports fall while real imports rise, pushing the current account into deficit

In the fourth quarter, real exports fell 8.5% while real imports rose 10.9%. Real exports declined across major goods categories, reflecting weaker U.S. demand and the continued strength of the Canadian dollar.

Real imports rose in all major categories, except energy and automotive products. North American vehicle sales at dealers fell, reducing imports of parts for the production and export of cars and trucks. The overall import gain reflected robust domestic spending as well as lower relative prices for imported goods. Imports of services increased 37.1% as travel spending abroad by Canadians (including cross-border shopping) soared 84.4%.

Although the terms of trade improved in the fourth quarter as export prices fell less than import prices, the sharp decline in net export volumes resulted in a $7.6-billion narrowing in the trade surplus to $14.1 billion. Similarly, the current account declined by $7.4 billion from a surplus of $5.3 billion to a deficit of $2.1 billion, or 0.1% of nominal GDP (Chart 2).

Corporate profits increase more slowly

Corporate profits rose 2.2% in the fourth quarter after rising 7.9% in the third quarter. Stronger consumer spending boosted profits for retailers and wholesalers. However, weak sales hindered motor vehicle and parts manufacturers' profits while lower prices reduced the profits of primary metal manufacturers. Overall, profits as a share of nominal GDP decreased modestly to 13.7% in the quarter (Chart 3). While somewhat below the peak at the end of 2005, profit margins remain well above their historical average.

Consumer price inflation remains subdued

Year-over-year consumer price inflation was 1.8% in February 2008, down from 2.2% in January, partly reflecting lower prices for fruits and vegetables. Core CPI inflation, which excludes eight of the most volatile items and the effect of changes in indirect taxes, increased to 1.5% year-over-year in February from 1.4% in January. Core inflation has been below the Bank of Canada's 2% target since October 2007.

Chart 2
Current account as a percentage of nominal GDP

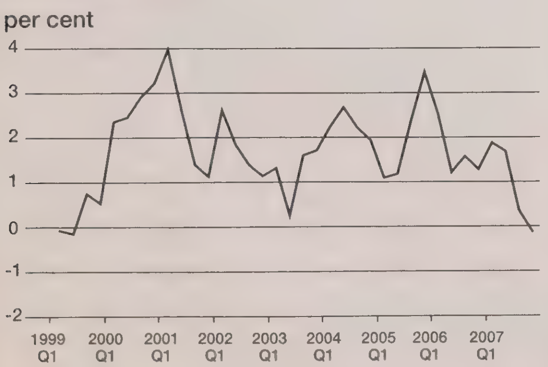
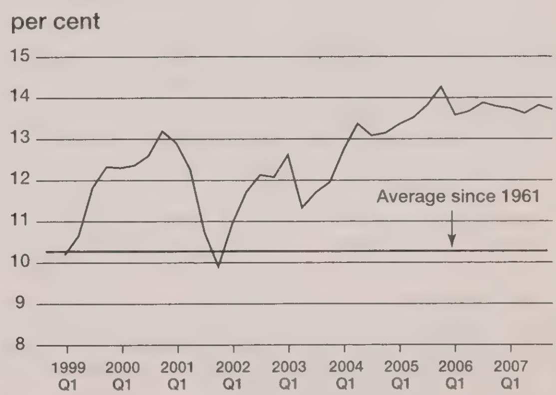


Chart 3
Profits before taxes as a share of nominal GDP



The GDP deflator, a comprehensive measure of the prices of goods and services produced in Canada (it includes export prices but excludes import prices), rose 4.5% in the fourth quarter following a 0.7% decrease in the third. The increase in the deflator largely reflects higher energy prices. However, final domestic demand prices (which include the effect of import prices), rose a little over 1%, as declining prices for imports dampened the impact of increased prices for domestically produced goods and services.

Unemployment rate remains low

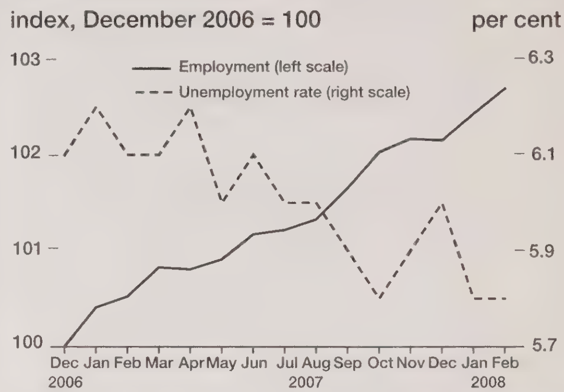
Employment grew 2.9% in the fourth quarter, up from 1.7% in the third quarter. With further gains in January and February 2008, net job creation stood at a healthy 447,800 since the end of 2006 (Chart 4), nearly 90% of which was in full-time jobs. In February, the unemployment rate remained at a 33-year low of 5.8%. The participation rate was at 67.8%, a record high.

Hourly labour productivity for the total economy fell 2.6% in the fourth quarter, following growth of 0.8% in the previous quarter. Labour costs per unit of output on a total economy basis were up 5.8% in the fourth quarter.

Bank of Canada lowers policy rate

On March 4, the Bank of Canada reduced its key policy rate—the target for the overnight rate—by 50 basis points to 3.5%. This followed cuts of 25 basis points on both December 4 and January 22. In its announcement following the March cut, the Bank noted that "the deterioration in economic and financial conditions in the United States can be expected to have significant spillover effects on the global economy. These developments suggest that important downside risks to Canada's economic outlook...are materializing and, in some respects, intensifying." The Bank also noted that "the balance of risks...for inflation has...shifted to the downside."

Chart 4
Employment and the unemployment rate



In response to credit market disruptions and a weakening economy, the U.S. Federal Reserve decreased the target for the fed funds rate by 75 basis points on March 18, bringing the total reduction to 300 basis points since September 2007.

Canadian dollar

High commodity prices, such as those for crude oil, continue to support the Canadian dollar. After hitting a modern-day high of 108.52 U.S. cents on November 6, 2007, the value of the Canadian dollar has since traded between 97 and 103 U.S. cents. It closed at 97.90 U.S. cents on March 28.

The main source of data used in this publication is Statistics Canada. For inquiries about this publication, contact Isabelle Amano at 613-992-4321. Also available on the Internet at www.fin.gc.ca.
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